

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Marysville	County St. Clair
Audit Date 6/30/05	Opinion Date 9/2/05	Date Accountant Report Submitted to State: 12/6/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple			
Street Address 1979 Holland Ave		City Port Huron	State MI
Accountant Signature <i>Stewart, Beauvais & Whipple</i>		Date 12-6-05	

CITY OF MARYSVILLE, MICHIGAN

ANNUAL FINANCIAL STATEMENTS
with Supplementary Information

FOR THE YEAR ENDED
JUNE 30, 2005

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



CITY OF MARYSVILLE, MICHIGAN

TABLE OF CONTENTS

JUNE 30, 2005

	<u>Page Number</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	16
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Net Assets – Proprietary Funds	20
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	21
Statement of Cash Flows – Proprietary Funds	22
Statement of Fiduciary Net Assets – Fiduciary Funds	23
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	24
Discretely Presented Component Units:	
Combining Statement of Net Assets	25
Combining Statement of Activities	26
Notes to the Basic Financial Statements	28
Required Supplementary Information:	
Employee Retirement System –	
General City Employee System - Schedule of Funding Progress	52
Schedule of Employer Contributions	52
Police Officers and Firefighters Retirement System –	
Schedule of Funding Progress	53
Schedule of Employer Contributions	53

CITY OF MARYSVILLE, MICHIGAN

TABLE OF CONTENTS JUNE 30, 2005

	<u>Page Number</u>
General Fund – Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	54
Supplementary Information:	
Combining and Individual Fund Statements and Schedules	
Nonmajor Governmental Funds –	
Combining Balance Sheet	56
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	59
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	62
 Fiduciary Funds –	
Pension and Other Employee Benefit Trust Fund	
Combining Statement of Fiduciary in Net Assets	67
Combining Statement of Changes in Fiduciary Net Assets	69
 Agency Funds –	
Combining Statement of Changes in Assets and Liabilities	71
 Capital Assets Used in the Operation of Governmental Funds – Schedule of Changes in Capital Assets	72
 Component Unit – Local Development Finance Authority –	
Balance Sheet/Statement of Net Assets	73
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	73
 Statement of Revenues, Expenditures/Expenses and Changes in Fund Balance/Statement of Activities	74
Reconciliation of the Statement of Revenues, Expenditures/ Expenses and Change in Fund Balances of Governmental Funds to the Statement of Activities	74

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Marysville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the remaining fund information of the City of Marysville, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Marysville's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the component unit financial statements of the Marysville Housing Commission. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Marysville Housing Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marysville, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2005, on our consideration of the City of Marysville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12, and schedule of funding progress, schedule of employer contributions and budgetary comparisons on pages 52 through 55 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marysville's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Stewart, Beauvois & Whipple".

Certified Public Accountants

September 2, 2005



CITY OF MARYSVILLE

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MANAGEMENT DISCUSSION AND ANALYSIS

This section of the City of Marysville's annual financial report presents the City's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the City's financial statements, which follow this section. Comparative data to the prior year is included in this report when available and appropriate.

FINANCIAL HIGHLIGHTS

- Total cost of all of the City's governmental programs (all funds except for water, sewer, golf and pension related funds) was \$10,309,384 with no new programs added this year.
- In the City's business-type activities (sewer, water and golf), operating revenues were \$4,064,984, and operating expenses of \$3,493,439, resulting in a net operating income of \$571,545. With non-operating revenues and expenses and net transfers the business-type activities had a net income of \$416,006.
- The City of Marysville's total debt increased by \$665,363 during the current fiscal year. Principal payments of \$370,000 were made for the Sewer Separation Bonds and the Building Authority Bonds. However, the City received \$1,028,996 Bond Proceeds for the Wet Weather Sewer Project. In addition, the City went through a refunding process of the Building Authority Bonds that will reduce the interest payments in future years.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts – Management Discussion and Analysis (this section), the Basic Financial statements, required supplementary information (RSI), and an optional section that presents combining statements for non-major governmental funds and fiduciary funds. The basic financial statements include two kinds of statements that present different views of the City: Government-wide Financial Statements and Fund Financial Statements. The table below summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of the City of Marysville Financial Statements

<i>Statement Type</i>	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary, such as police, fire and parks	Activities the City operates similar to private business: Water, Sewer, and Golf Fund	Where City is trustee for someone else's resources, ex. City General Retirement System
Required financial statements	<ul style="list-style-type: none"> - Statement of net assets - Statement of activities 	<ul style="list-style-type: none"> - Balance sheet - Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> - Statement of net assets - Statement of revenues, expenses and changes in fund net assets - Statement of cash flows 	<ul style="list-style-type: none"> - Statement of fiduciary net assets - Statement of changes in fiduciary net assets
Accounting basis & measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short- and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, short- and long-term	All assets & liabilities, both short and long-term; the City's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the year end; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenue and expenses during year, regardless of when cash is received or paid

Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies and provide long- and short-term information. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets defined, as the difference between assets and liabilities, is one way to measure the City's financial health or position.

The government-wide financial statements of the City are divided into three categories:

- Governmental activities (all activities except sewer, water, golf and pension related funds) – most of the City’s basic services are included here, such as public safety, public works, parks and general administration. Property taxes and state and federal grants finance most of these activities.
- Business-type activities – activities where the City charges fees to customers to help it cover the cost of services it provides; included here is the sewer, water and golf funds.
- Component units – the City has two component units; the Housing Commission and the new Local Development Finance Authority (LDFA) - although legally separate, the Housing Commission is important because the City is financially accountable for them. The independent audit for the Housing Commission has been completed and a copy can be obtained upon request. The LDFA was formed this fiscal year to assist the City to recoup the costs of purchasing the property for the new Schefenacker Visions Inc paint plant.

Fund Financial Statements

The fund financial statements provide more detailed information about the City’s most significant funds-not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three kinds of funds:

- Governmental funds-Most of the City’s basic services are reported in governmental funds (all funds except water, sewer, golf and pension related funds), which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. We describe the relationship (or differences) between governmental activities (in Statement of Net Assets and Statement of Activities) and governmental funds in a reconciliation schedules on pages 17 and 19.
- Proprietary funds-Services for which the City charges customers a fee (water, sewer, motor pool and golf) are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The City’s *enterprise* funds (a type of proprietary fund) are the same as the business-type activities, but provide more detail and information. The *internal service* fund (another proprietary fund type) reports activities that provide supplies and services for the City’s other programs. The internal service fund reported here is the Motor Pool Fund.
- Fiduciary funds-The City is the trustee, or fiduciary, for its employees’ pension and other employee benefit trust funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City’s fiduciary

activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. They are excluded from the government-wide financial statements because these assets cannot be used to finance the City's operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's combined net assets decreased for two years in a row from \$41.2 million to \$40.2 million or approximately 2%. This trend may continue merely as a result of the large annual depreciation of the mass of assets in relation to the small additions per year by comparison. Our analysis focuses on the net assets (Table 1) of the City's governmental and business type activities. Comparison data from the prior year is also shown.

Table 1
Net Assets of Governmental and Business-type Activities
(In thousands)

	Governmental Activities		Business- type Activities		Total Government	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Current and other assets	9,513	9,179	2,061	2,613	\$11,575	11,792
Capital Assets	22,005	20,587	17,143	17,669	39,148	38,256
<i>Total Assets</i>	<i>\$31,518</i>	<i>\$29,766</i>	<i>\$19,204</i>	<i>\$20,282</i>	<i>\$50,723</i>	<i>\$50,048</i>
Long-term debt out-standing	2,750	2,686	5,440	6,169	8,191	8,855
Other liabilities	847	462	514	446	1,360	908
<i>Total Liabilities</i>	<i>\$3,597</i>	<i>\$3,148</i>	<i>\$5,954</i>	<i>\$6,615</i>	<i>\$9,551</i>	<i>\$9,763</i>
Net Assets:						
Invested in capital assets, net of debt	19,255	17,900	11,425	11,235	30,680	29,135
Restricted	1,467	3,129	0	0	1,467	3,129
Unrestricted	7,199	5,589	1,826	2,432	9,025	8,021
<i>Total Net Assets</i>	<i>\$27,921</i>	<i>\$26,618</i>	<i>\$13,251</i>	<i>\$13,667</i>	<i>\$41,172</i>	<i>\$40,285</i>

The decrease in net assets for the governmental activities is \$1,304,084, while the net assets for business type activities actually increased by \$416,606. The decrease in net assets for the governmental activities was mainly due to the large amount of depreciation for the year in relation to the amount of assets added. For the business type activities the change is considered reasonable and part of the normal process of doing business.

Governmental Activities

Governmental activities for the City include four major activities: General Government, Public Safety, Public Works, and Recreation/Culture. General Government

includes Administration, Assessor, Treasurer, Clerk, Finance and Community Development departments. Public Safety includes Police, Fire, Civil Defense and Building Inspector departments. Public Works includes primarily the Department of Public Works and building and maintenance of the major and local roads. The library, city parks, historical and recreation activities comprise the Recreation and Culture activity.

The largest revenue for governmental activities is the general operating property tax. The City was allowed by State law to increase its property tax by the raw rate of inflation for those properties that were not sold and had no construction improvements. The taxable value of property in the City increased by 5.8% due to new construction and uncapping of sold properties. This resulted in an increase of taxes of approximately \$283,228 over the prior year.

State shared revenue decreased for the third year in a row. This year's decrease is only 2.1% or \$22,916. Last year's decrease was 7.9 % or \$93,685, so there was improvement. The Revenue Sharing dollars are a result of the State of Michigan collecting sales tax and redistributing a portion of it to the local jurisdictions. It represents the second largest source of revenue for the City, but is unfortunately is volatile since it fluctuates with the economy.

To assist in maintenance and repair of the road system, the City receives Michigan Transportation Fund money. In Fiscal Year 05, they received \$615,394 from the Transportation Fund that is included in the "program revenues" section of the State of Activities for Public Works (operating grants and contributions). This represents a modest 3.1% increase from the prior year. But, we have received a letter for us to expect a decrease of up to 8% in their (State's) next distribution. Due to the volatility of the ACT 51 monies the City continually applies for Federal and/or State grants to assist with the maintenance and repair of the roads.

The Program Revenues for Public Safety includes two major sources: the collections for the ambulance services (EMS) in the Fire department and the permits and licenses for general construction in the city. The permit amount increased from the prior year primarily due to the permits necessary to construct the new Meijer store, the first big box store in town.

Table 2 below presents the cost of most of the City's programs- general government, public safety, public works, and recreation/culture, and others-as well as each program's net cost (total cost less revenues generated by the activities). The table includes comparison data for fiscal year ending 6-30-04 and for fiscal year ending 6-30-05. The net cost shows the financial burden that was placed on the City's taxpayers (by property tax and revenue sharing from the State) by each of these functions.

Table 2
Governmental Activities

(In thousands of dollars)

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	<u>2004</u>	<u>2005</u>	<u>2004-2005</u>	<u>2004</u>	<u>2005</u>	<u>2004-2005</u>
General Government	\$878	894	2%	\$800	823	3%
Public Safety	3,620	3993	10%	3,150	3,422	7%
Public Works	4,330	4402	2%	3,114	3,722	12%
Recreation & Culture	562	533	-5%	506	465	-8%

Business-type Activities

The City has three business-type activities: water, sewer and golf funds. As shown by the table below, the revenues of these activities increased by 15.5 percent, and operating & non-operating expenses increased by about 2 percent. The City experienced a net asset increase of \$416,606.

Table 3
Changes in Net Assets of Business-type Activities

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Revenues:			
Charges for Services	\$ 3,372,436	\$ 3,413,787	\$ 3,866,561
Other	213,749	203,763	198,423
Investment Earnings	145,795	9,242	124,817
Total Revenues	<u>\$ 3,731,980</u>	<u>\$ 3,626,792</u>	<u>4,189,801</u>
Expenses:			
Operating & Non-operating	<u>3,595,222</u>	<u>3,562,686</u>	<u>3,641,616</u>
Total Expenses	<u>3,595,222</u>	<u>3,562,686</u>	<u>3,641,616</u>
Excess before transfers	136,758	64,106	548,185
Transfers	<u>(100,000)</u>	<u>(1,098,000)</u>	<u>(131,579)</u>
Increase in Net Assets	<u>\$ 36,758</u>	<u>\$ (1,033,894)</u>	<u>\$ 416,606</u>

The increase in net assets was almost evenly spread between the Water and Sewer funds. The Golf Fund actually had a loss of \$13,341, about \$40,612 better than last year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Marysville uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds

The focus of the City of Marysville's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Marysville's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the City completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$8,190,952, an increase of \$696,436. Approximately 74 percent (same percentage as last year) of this total amount constitutes unreserved fund balance, which is available for spending at the government's discretion. Of this unreserved amount, \$894,377 has been designated for various items, such as EMS equipment (\$581,226) and building improvements (\$203,850). A complete listing can be

found on page 50 in the Notes to Combined Financial Statements. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The General Fund is the chief operating fund of the City of Marysville. At the end of the current fiscal year, the fund balance of the general fund was \$4,817,414, while the fund balance at the beginning of the year was \$4,615,189, a modest \$202,225 increase. As seen on page 18, the Other Governmental Funds, increased their fund balances by a total of \$494,211. Two funds, Public Improvement and the Motor Vehicle Highway fund increased their fund balances by \$241,465 and \$294,209, respectively and represent the bulk of the \$494,211. The Local Improvement and Revolving Fund was closed out, transferring its balance to the Retiree Health Care Fund. Pages 54 to 56 show the detail of each of the funds that are included in the Other Governmental Funds grouping.

Proprietary Funds

The City of Marysville's proprietary funds provide the same type of information in the government-wide financial statements, but in more detail.

Total net assets for the Proprietary Funds at the end of the year were \$13,667,234, increased by \$416,606 from the prior year. The Water Fund increased by \$210,539 and the Wastewater Fund increased by \$219,408. For the Water Fund the designated portion of the fund balance actually increased by \$400,000 for future plant improvement expenses. In the Wastewater Fund the designated portion increased by \$363,789 for future fringe benefit expenses. The Golf Fund actually had a decrease in fund balance by \$13,341. The Golf Fund is struggling in a depressed economy, making adjustments to keep the expenses down.

General Fund Budgetary Highlights

There were no amendments by the City Council to the original General Fund budget passed in May 2004. Even though the budget is passed by the City Council prior to the beginning of the fiscal year, all expenditures throughout the year are reviewed and approved as they occur. Council and Administration, during Budget sessions, attempt to enable the City to respond to any changes that can and do occur throughout the twelve-month period. During the Budget process the Council discusses major projects, proposed for the upcoming year, as well as looking beyond the budget year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the City had a net book value of \$38.25 million invested in a broad range of capital assets, including police, fire and DPW equipment, buildings, park facilities, roads, and water and sewer lines. Refer to Table 4 for a schedule showing the Capital Assets

at year-end for both the year ending 6-30-04 and 6-30-05 for both the Governmental and the Business-type activities. There is also a total column for the Total Primary Government for each year.

Table 4
Capital Assets at Year-end
(Net of Depreciation - in thousands)

	Governmental Activities		Business- type Activities		Total Primary Government	
	2004	2005	2004	2005	2004	2005
Land	1,008.9	1,076.1	91.5	91.5	1,100.4	1,167.6
Land improvements	752.6	674.7	578.6	570.5	1,331.2	1,245.2
Construction-in-progress	497.2	697.5	1,908.9	2,617.3	2,406.1	3,314.8
Buildings	4,186.7	4,077.5	3,030.9	2,903.4	7,217.6	6,980.9
Building improvements	263.3	212.8	162.0	143.9	425.3	356.7
Machinery & Equipment	913.4	870.6	832.8	915.4	1,746.2	1,724.2
Vehicles	326.6	204.8	-	-	326.6	266.6
Bike paths	303.0	291.0	-	-	303.0	291.0
Sidewalks	746.6	762.4	-	-	746.6	762.4
Streets	13,006.5	11,719.2	-	-	13,006.5	11,719.2
Water & Sewer systems	-	-	10,538.0	10,426.5	10,538.0	10,426.5
Totals	22,004.8	20,586.6	17,142.7	17,668.5	39,147.5	38,255.1

This year's major additions included:

Annual Concrete Streets Improvement program	157,347
Water & Sewer Lines Improvements	178,078
Fire Department Pick Up Truck	27,960
Land for Recreational Activities	67,194
DPW Equipment & Vehicles	142,114
River Rd Drainage & Irrigation	30,183
Water Plant Equipment Improvements	221,999

As of 6-30-05, the City has numerous projects in process (Construction-in-progress amount above in table) that are scheduled to be completed in Fiscal Year 06. One is the Wet Weather Wastewater project as directed by the Michigan Department of Environmental Quality. This project started in fiscal year 04 and is scheduled to be completed in fiscal year 06. When completed it will upgrade the wastewater's retention facility and further decrease

the excess flows into the St. Clair River during wet weather. This will be financed by a bond debt obligation paid for through user fees. Other projects include Huron Boulevard Reconstruction, Drain/Culvert Project, and the River Road Reconstruction (Phase II). Both of the road reconstruction projects will be assisted by Grants through the State of Michigan. The City always strives to gain grants to do the major work on the City's Major as well as Local Roads.

Debt

At year-end, the City has \$8,855,211 in bonds outstanding versus \$8,189,848 last year. That is a 8% increase over last year, primarily due to the Wet Weather Project. The City received \$1,028,996 additional progress payments throughout the 2005 fiscal year for the Wet Weather project. Table 5 below illustrates the outstanding debt at year-end.

Table 5
Outstanding Debt at Year-end
(In thousands)

	Governmental Activities		Business- type Activities		Totals	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
General Obligation Bonds (backed by the City)	\$2,750	\$2,686	\$ -0-	\$ -0-	\$2,750	\$2,686
Revenue Bonds (backed by specific fee revenues)	\$ -0-	\$ -0-	\$5,440	\$6,169	\$5,440	\$6,169
Totals	\$2,750	\$2,686	\$5,440	\$6,169	\$8,190	\$8,855

The General Obligation bonds currently due are from the construction of the Police and Fire building and the purchase of the Department of Public-Works complex. These bonds were taken out in 1996 in the amount of \$3,225,000 and were paid off during a refunding process in fiscal year 2005, except for a \$100,000 principal payment in September 2005. The City refunded a new debt amount of \$2,680,000, which will reduce the interest cost to the city, very similar to a residential refinancing process.

The revenue bonds are a result of the Combined Sewer Separation and the Wet Weather project that the Michigan Department of Environmental Quality required of the City to decrease excess flows into the St. Clair River. The user fees in the sewer fund create the revenue to pay off these bonds. By September 1993, \$2,375,181 was received for Phase I of the CSO project in bonds and is scheduled to be paid off in fiscal year 2015. Phase II of that same project was received by October 1996 for \$3,950,000 and is scheduled to be paid off in fiscal year 2018. As of the end of fiscal year 05, \$2,253,844 was received by the City for the Wet Weather Project, which represents at least 90% of the projected obligation.

The State limits the amount of general obligation debt that cities can issue to 10 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt remains below its state-imposed limit.

More detailed information about the City's long-term liabilities is presented in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Marysville (2000 census-population of 9,684) is primarily a residential community located in St. Clair County, Michigan. According to SEMCOG, the Southeast Michigan population grew steadily from the 2000 Census by 1.6 percent during the past five years, which would estimate the current Marysville population to be 9,839. The city's proximity to the downtown Detroit metropolitan area and several major roadways, including Interstate Highways 94 and 69, has helped spur recent residential development. The latest reported median income level for Marysville is \$49,299 and the median house value is \$129,700. Meijer Corporation, a big box store, opened in the Spring of 2005. This retail development has created a lot of speculation that further growth will follow.

In FY 2004-2005, the general fund posted an excess of revenues after transfers of \$202,225. The City, which relies heavily on property taxes (73.4% of total revenues, versus 72.65% in 2004 and 70.1% in 2003), continues operating within the state-authorized tax rate limit. With the continual anticipated decreases in Revenue Sharing at the State level in the years ahead along with the bleak short term outlook for the State of Michigan, the City administration works closely with City Council analyzing all aspects of the budget process to continue the financial position of the City.

The City has also adopted a balanced budget for FY 2005-2006. The City's elected and appointed officials considered many factors when setting that budget, along with the tax rates, and fees that will be charged for the city's activities. The expenditures budgeted for the general fund increased by \$284,233. A proposed ambulance purchase by the fire department increased the budget by approximately \$130,000. This purchase will be paid with revenues from money set aside from ambulance runs. Another area of increase is in the Benefit portion of the budget. The actuarial derived City contributions have increased by approximately \$135,085. The City Council and employees strive to look for new and more efficient methods of running the City on a continual basis.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director's Office by mail at 1111 Delaware, Marysville, MI 48040, by phone 810-364-6613, by fax 810-364-3940, or e-mail finance@cityofmarysvillemi.com.

BASIC FINANCIAL STATEMENTS

CITY OF MARYSVILLE, MICHIGAN

STATEMENT OF NET ASSETS JUNE 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 986,112	\$ 393,989	\$ 1,380,101	\$ 50,284
Investments	7,118,486	1,924,102	9,042,588	510,169
Receivables (net of allowance)	498,964	628,598	1,127,562	11,438
Prepaid expenditures	114,205	10,650	124,855	11,141
Internal balances	264,772	(264,772)	-	-
Due from (to) fiduciary funds	32,229	(100,000)	(67,771)	-
Due from component units	63,584	-	63,584	-
Inventory	-	20,759	20,759	-
Deferred charges	101,086	-	101,086	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	1,773,602	3,241,225	5,014,827	104,253
Assets being depreciated	18,813,016	14,427,322	33,240,338	3,008,041
Total Assets	<u>29,766,056</u>	<u>20,281,873</u>	<u>50,047,929</u>	<u>3,695,326</u>
LIABILITIES:				
Payables and accrued liabilities	305,410	402,372	707,782	84,080
Accrued interest	30,881	39,572	70,453	-
Advances and deposits	125,795	-	125,795	27,153
Due to primary government	-	-	-	23,195
Deferred revenue	-	3,851	3,851	326
Non-current liabilities				
Due within one year	100,000	305,000	405,000	27,210
Due in more than one year	2,586,367	5,863,844	8,450,211	337,095
Total Liabilities	<u>3,148,453</u>	<u>6,614,639</u>	<u>9,763,092</u>	<u>499,059</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	17,900,251	11,234,931	29,135,182	3,112,294
Restricted -				
Acquisition/construction of capital assets	1,302,982	-	1,302,982	-
Cemetery perpetual care				
Expendable	110,599	-	110,599	-
Nonexpendable	193,245	-	193,245	-
Other	1,521,529	-	1,521,529	-
Unrestricted	<u>5,588,997</u>	<u>2,432,303</u>	<u>8,021,300</u>	<u>83,973</u>
Total Net Assets	<u>\$ 26,617,603</u>	<u>\$ 13,667,234</u>	<u>\$ 40,284,837</u>	<u>\$ 3,196,267</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	\$ 893,602	\$ 70,417	\$ -	\$ -
Public Safety	3,992,994	500,195	70,937	-
Public Works	4,401,668	4,716	645,460	29,655
Recreation and Culture	533,566	32,146	36,722	-
Other Activities	416,308	3,688	500,000	-
Interest on Long Term Debt	71,246	-	-	-
Total governmental activities	<u>10,309,384</u>	<u>611,162</u>	<u>1,253,119</u>	<u>29,655</u>
Business type activities				
Water Supply System	1,553,364	1,753,984	-	-
Wastewater	1,482,579	1,722,508	-	-
Golf Course	605,673	588,492	-	-
Total business type activities	<u>3,641,616</u>	<u>4,064,984</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>13,951,000</u>	<u>4,676,146</u>	<u>1,253,119</u>	<u>29,655</u>
Component Units				
Local Development Fiance Authority	387,500	-	-	-
Housing Commission	<u>667,652</u>	<u>325,445</u>	<u>217,285</u>	<u>-</u>
Total Component Units	<u>1,055,152</u>	<u>325,445</u>	<u>217,285</u>	<u>-</u>
General revenues:				
Property taxes				
Franchise fees				
Grants and contribution not -				
restricted to specific programs				
Unrestricted investment income				
Transfer - internal activities				
Transfers to fiduciary fund				
Total general revenues and transfers				
Change in net assets				
Net assets at beginning of year				
Net assets at end of year				

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government		Total	Component Units
Governmental Activities	Business Type Activities		
\$(823,185)	\$ -	\$(823,185)	\$ -
(3,421,862)	-	(3,421,862)	-
(3,721,837)	-	(3,721,837)	-
(464,698)	-	(464,698)	-
87,380	-	87,380	-
(71,246)	-	(71,246)	-
(8,415,448)	-	(8,415,448)	-
-	200,620	200,620	-
-	239,929	239,929	-
-	(17,181)	(17,181)	-
-	423,368	423,368	-
(8,415,448)	423,368	(7,992,080)	-
-	-	-	(387,500)
-	-	-	(124,922)
-	-	-	(512,422)
6,300,733	-	6,300,733	-
105,677	-	105,677	-
1,067,286	-	1,067,286	-
524,671	124,817	649,488	12,801
(68,421)	68,421	-	-
(818,582)	(200,000)	(1,018,582)	-
7,111,364	(6,762)	7,104,602	12,801
(1,304,084)	416,606	(887,478)	(499,621)
27,921,687	13,250,628	41,172,315	3,695,888
\$ 26,617,603	\$ 13,667,234	\$ 40,284,837	\$ 3,196,267

CITY OF MARYSVILLE, MICHIGAN

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Assets:			
Cash and cash equivalents	\$ 116,087	\$ 684,948	\$ 801,035
Investments	4,382,664	2,535,804	6,918,468
Receivables -			
Property taxes (net of allowance)	57,543	1,908	59,451
Interest and accounts	85,248	1,228	86,476
Special assessments	-	27,528	27,528
Due from other governmental units -			
Federal/State	138,152	129,609	267,761
Local	18,242	36,721	54,963
Due from other funds	55,432	-	55,432
Due from component units	40,389	23,195	63,584
Advance to other Component units	264,772	-	264,772
Prepayments and deposits	109,472	2,560	112,032
	<u>5,268,001</u>	<u>3,443,501</u>	<u>8,711,502</u>
Total Assets	\$ 5,268,001	\$ 3,443,501	\$ 8,711,502
Liabilities:			
Accounts payable	\$ 203,086	\$ 26,605	\$ 229,691
Accrued liabilities	38,794	20,804	59,598
Advances and deposits	125,795	-	125,795
Due to other funds	23,203	-	23,203
Deferred revenue	59,709	22,554	82,263
	<u>450,587</u>	<u>69,963</u>	<u>520,550</u>
Total Liabilities	450,587	69,963	520,550
Fund Balances:			
Reserved -	438,972	1,667,092	2,106,064
Unreserved -			
Designated -	861,706	32,671	894,377
Undesignated -			
General Fund	3,516,736	-	3,516,736
Special Revenue Funds	-	1,673,775	1,673,775
Total Equity	<u>4,817,414</u>	<u>3,373,538</u>	<u>8,190,952</u>
	<u>5,268,001</u>	<u>3,443,501</u>	<u>8,711,502</u>
Total Liabilities and Fund Equity	\$ 5,268,001	\$ 3,443,501	\$ 8,711,502

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
JUNE 30, 2005**

Fund Balances - total governmental funds		\$	8,190,952
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets			47,758,887
Accumulated depreciation		(27,732,717)
Other long term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.			
Delinquent Personal Property Taxes	54,067		
Special Assessments	21,383		
Grants	<u>6,813</u>		82,263
Internal Service Fund used by management to charge cost of the City's motor pool activities. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.			
			934,380
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Bonds payable	(2,780,000)	
Accrued interest	(<u>30,881</u>	(2,810,881)
Bond Issuance costs reported as debt retirement in the governmental funds, where they deferred and amortized for net assets			
			101,086
Losses on refunding are not reported in the governmental funds, where they are capitalized and amortized for net assets (netted against bonds payable)			
			<u>93,633</u>
Net Assets of governmental activities		\$	<u><u>26,617,603</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF MARYSVILLE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	General	Other Governmental Fund	Total Governmental Funds
Revenues:			
Taxes	\$ 6,270,943	\$ 293	\$ 6,271,236
Licenses and permits	361,368	-	361,368
Intergovernmental -			
Federal/State	1,131,410	1,175,115	2,306,525
Local	-	36,722	36,722
Charges for services	247,479	-	247,479
Fines and forfeits	26,503	-	26,503
Interest and rent	468,935	61,711	530,646
Special assessment	-	19,497	19,497
Other	39,788	36,250	76,038
Total Revenues	<u>8,546,426</u>	<u>1,329,588</u>	<u>9,876,014</u>
Expenditures:			
Current -			
General Government	488,515	-	488,515
Public Safety	2,562,737	486	2,563,223
Public Works	1,315,457	837,217	2,152,674
Recreation and Cultural	212,421	265,327	477,748
Other Activities	1,878,656	534,503	2,413,159
Capital Outlay	63,123	692,140	755,263
Debt Service			
Principal	-	100,000	100,000
Interest	-	76,656	76,656
Issuance costs	-	101,086	101,086
Total Expenditures	<u>6,520,909</u>	<u>2,607,415</u>	<u>9,128,324</u>
Excess of revenues over (under) expenditures	<u>2,025,517</u>	<u>(1,277,827)</u>	<u>747,690</u>
Other Financing Sources (Uses):			
Bond Proceeds	-	2,680,000	2,680,000
Bond Premium	-	18,050	18,050
Payment to refunding bond escrow agent	-	(2,661,683)	(2,661,683)
Transfer In	295,770	2,263,756	2,559,526
Transfer Out	(2,119,062)	(528,085)	(2,647,147)
Total Other Financing Sources (Uses)	<u>(1,823,292)</u>	<u>1,772,038</u>	<u>(51,254)</u>
Excess of revenues and other sources over (under) expenditures and other uses	202,225	494,211	696,436
Fund Balances at beginning of year	<u>4,615,189</u>	<u>2,879,327</u>	<u>7,494,516</u>
Fund Balances at end of year	<u>\$ 4,817,414</u>	<u>\$ 3,373,538</u>	<u>\$ 8,190,952</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2005**

Net change in fund balances - total governmental funds		\$	696,436
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Capital outlay			614,492
Depreciation expense		(2,002,049)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
			20,502
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.			
Principal payments on long term liabilities	100,000		
Payment to refunding bond escrow agent	2,661,683		
Bond Proceeds	(2,680,000)		
Deferred issuance cost, net of amortization	101,086		
Amortization of deferred loss on refunding	(18,050)		
Decrease in accrued interest	<u>5,410</u>		170,129
Internal service funds used by management to charge costs of the City's motor pool activities. The net revenues (expenses) attributable to those funds is reported with governmental activities.			
		(4,212)
Return of Internal service fund equity reported in the fund financial statements as transfers, however the amount was eliminated in the statement of net assets			
		(<u>799,382</u>)
Change in net assets of governmental activities		\$	<u><u>(1,304,084)</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF MARYSVILLE, MICHIGAN

STATEMENT OF NET ASSETS PROPRIETARY FUNDS JUNE 30, 2005

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water Supply System	Wastewater	Golf Course	Total	Internal Service Fund
ASSETS:					
Current Assets:					
Cash and cash equivalents	\$ 114,804	\$ 70,851	\$ 208,334	\$ 393,989	\$ 185,077
Investment	1,267,619	656,483	-	1,924,102	200,018
Accounts and interest receivable	413,841	213,463	1,294	628,598	2,785
Inventories	-	-	20,759	20,759	-
Prepaid expenses	3,740	3,316	3,594	10,650	2,173
Total Current Assets	<u>1,800,004</u>	<u>944,113</u>	<u>233,981</u>	<u>2,978,098</u>	<u>390,053</u>
Property, Plant and Equipment:					
Property, plant and equipment	10,971,014	13,456,475	1,974,620	26,402,109	1,613,445
Less - accumulated depreciation	(5,050,160)	(3,014,261)	(669,141)	(8,733,562)	(1,052,997)
Total Property, Plant and Equipment (net of accumulated depreciation)	<u>5,920,854</u>	<u>10,442,214</u>	<u>1,305,479</u>	<u>17,668,547</u>	<u>560,448</u>
Total Assets	<u><u>7,720,858</u></u>	<u><u>11,386,327</u></u>	<u><u>1,539,460</u></u>	<u><u>20,646,645</u></u>	<u><u>950,501</u></u>
LIABILITIES:					
Current Liabilities:					
Accounts payable	150,420	221,882	11,169	383,471	12,374
Accrued expenses	5,610	1,954	11,337	18,901	3,747
Accrued interest	-	39,572	-	39,572	-
Notes payable (current portion)	-	305,000	-	305,000	-
Due to other funds	100,000	-	-	100,000	-
Deferred revenue	-	-	3,851	3,851	-
Total Current Liabilities	<u>256,030</u>	<u>568,408</u>	<u>26,357</u>	<u>850,795</u>	<u>16,121</u>
Long-Term Liabilities (less current portions):					
Advance from other funds	-	-	264,772	264,772	-
Notes payable (net of current portion)	-	5,863,844	-	5,863,844	-
Total Long-Term Liabilities	<u>-</u>	<u>5,863,844</u>	<u>264,772</u>	<u>6,128,616</u>	<u>-</u>
Total Liabilities	<u><u>256,030</u></u>	<u><u>6,432,252</u></u>	<u><u>291,129</u></u>	<u><u>6,979,411</u></u>	<u><u>16,121</u></u>
NET ASSETS:					
Investment in capital assets, net of related liabilities	5,920,854	4,273,370	1,040,707	11,234,931	560,448
Unrestricted					
Designated	438,000	363,789	50,000	851,789	146,000
Undesignated	<u>1,105,974</u>	<u>316,916</u>	<u>157,624</u>	<u>1,580,514</u>	<u>227,932</u>
Total Net Assets	<u><u>\$ 7,464,828</u></u>	<u><u>\$ 4,954,075</u></u>	<u><u>\$ 1,248,331</u></u>	<u><u>\$ 13,667,234</u></u>	<u><u>\$ 934,380</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water Supply System	Wastewater	Golf Course	Total	Internal Service Funds
Operating Revenues:					
Charges for services	\$ 1,753,360	\$ 1,680,282	\$ 432,919	\$ 3,866,561	\$ 464,824
Rent income	-	-	150,076	150,076	-
Other	624	42,226	5,497	48,347	1,322
Total Operating Revenues	<u>1,753,984</u>	<u>1,722,508</u>	<u>588,492</u>	<u>4,064,984</u>	<u>466,146</u>
Operating Expenses:					
Personnel services	807,182	588,473	359,626	1,755,281	211,047
Supplies	123,848	106,524	76,882	307,254	48,622
Other services	370,455	373,966	103,841	848,262	82,619
Depreciation	251,879	272,239	58,524	582,642	143,660
Total Operating Expenses	<u>1,553,364</u>	<u>1,341,202</u>	<u>598,873</u>	<u>3,493,439</u>	<u>485,948</u>
Operating Income (Loss)	<u>200,620</u>	<u>381,306</u>	<u>(10,381)</u>	<u>571,545</u>	<u>(19,802)</u>
Non-Operating Revenues (Expenses):					
Interest earned	57,792	63,185	3,840	124,817	15,590
Interest expenses	-	(141,377)	(6,800)	(148,177)	-
Total Non-Operating Revenues	<u>57,792</u>	<u>(78,192)</u>	<u>(2,960)</u>	<u>(23,360)</u>	<u>15,590</u>
Net Income (Loss) Before Transfers	<u>258,412</u>	<u>303,114</u>	<u>(13,341)</u>	<u>548,185</u>	<u>(4,212)</u>
Operating Transfers In (Out):					
Transfers from other funds	105,509	69,676	-	175,185	-
Transfers to other funds	(153,382)	(153,382)	-	(306,764)	(799,382)
	<u>(47,873)</u>	<u>(83,706)</u>	<u>-</u>	<u>(131,579)</u>	<u>(799,382)</u>
Net Income (Loss)	210,539	219,408	(13,341)	416,606	(803,594)
Net Assets at beginning of year	<u>7,254,289</u>	<u>4,734,667</u>	<u>1,261,672</u>	<u>13,250,628</u>	<u>1,737,974</u>
Net Assets end of year	<u>\$ 7,464,828</u>	<u>\$ 4,954,075</u>	<u>\$ 1,248,331</u>	<u>\$ 13,667,234</u>	<u>\$ 934,380</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water Supply System	Wastewater	Golf Course	Total	Internal Service Funds
Cash Flows From Operating Activities:					
Cash receipts from customers	\$ 1,730,771	\$ 1,682,989	\$ 584,876	\$ 3,998,636	\$ -
Cash receipts from interfund services	-	-	-	-	467,703
Cash payments to suppliers	(407,422)	(489,010)	(169,661)	(1,066,093)	(200,293)
Cash payments to employees	(801,948)	(586,519)	(348,289)	(1,736,756)	(275,510)
Net Cash Provided (Used) by Operating Activities	<u>521,401</u>	<u>607,460</u>	<u>66,926</u>	<u>1,195,787</u>	<u>(8,100)</u>
Cash Flows From Noncapital Financing Activities:					
Payment from/to other funds	(87,859)	(197,796)	(63,417)	(349,072)	(799,382)
Cash Flows From Capital and Related Financing Activities:					
Bond payments	-	(432,468)	-	(432,468)	-
Payments on Advance	-	-	(20,095)	(20,095)	-
Bond proceeds	-	1,028,996	-	1,028,996	-
Retainers and constructions payables	-	(154,970)	-	(154,970)	-
Acquisition and construction of capital assets	(322,142)	(786,358)	-	(1,108,500)	(112,945)
Net Cash Used by Capital and Related Financing Activities	<u>(322,142)</u>	<u>(344,800)</u>	<u>(20,095)</u>	<u>(687,037)</u>	<u>(112,945)</u>
Cash Flows From Investing Activities:					
Redemption (purchase) of investments	(57,607)	(58,542)	220,000	103,851	1,087,690
Interest earned	57,792	63,185	3,840	124,817	15,590
Net Cash Provided by Investing Activities	<u>185</u>	<u>4,643</u>	<u>223,840</u>	<u>228,668</u>	<u>1,103,280</u>
Net Increase (Decrease) in Cash and Cash Equivalents for the year	111,585	69,507	207,254	388,346	182,853
Cash and Cash Equivalents at Beginning of Year	3,219	1,344	1,080	5,643	2,224
Cash and Cash Equivalents at End of Year	<u>\$ 114,804</u>	<u>\$ 70,851</u>	<u>\$ 208,334</u>	<u>\$ 393,989</u>	<u>\$ 185,077</u>
Reconciliation of Net Income (Loss) to:					
Net Cash Provided (Used) by Operating Activities:					
Operating income (loss) for the year	\$ 200,620	\$ 381,306	\$(10,381)	\$ 571,545	\$(19,802)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -					
Depreciation	251,879	272,239	58,524	582,642	143,660
Change in assets and liabilities:					
Receivable	(23,213)	(39,519)	(1,294)	(64,026)	1,557
Prepays and deposits	9,267	7,577	4,305	21,149	3,983
Inventory	-	-	6,418	6,418	-
Accounts payable/accrued expenses	82,848	(14,143)	11,676	80,381	(69,288)
Due to other funds	-	-	-	-	(68,210)
Deferred revenue	-	-	(2,322)	(2,322)	-
Net Cash Provided (Used) By Operating Activities	<u>\$ 521,401</u>	<u>\$ 607,460</u>	<u>\$ 66,926</u>	<u>\$ 1,195,787</u>	<u>\$(8,100)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2005

	Pension and Other Employee Benefit Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS:		
Cash and cash equivalents	\$ 967,013	\$ 53,792
Investments	40,836,452	-
Receivables	135,404	718,309
Due from other funds	<u>123,203</u>	<u>-</u>
Total Assets	<u><u>42,062,072</u></u>	<u><u>772,101</u></u>
 LIABILITIES:		
Accrued liabilities	821,822	-
Due to other governmental units -		
Federal/state	-	98,882
Local	-	673,219
Due to other funds	<u>55,432</u>	<u>-</u>
Total Liabilities	<u><u>877,254</u></u>	<u><u>772,101</u></u>
 NET ASSETS:		
Held in trust for pension benefits	<u><u>41,184,818</u></u>	

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	Pension and Other Employee Benefit Trust Funds
Additions:	
Contributions	
Member contributions	\$ 197,943
Employer contributions	<u>2,493,139</u>
Total Contributions	<u>2,691,082</u>
Investment income	
Interest/Dividends	1,656,707
Unrealized gain (loss)	(3,548,751)
Gain (loss) on sale of investments	<u>3,993,270</u>
Net investment income	<u>2,101,226</u>
Total Additions	<u>4,792,308</u>
Deductions:	
Retirement benefit payments	2,144,467
Health insurance	586,345
Vested benefits	1,221
Professional fees	158,221
Miscellaneous	<u>26,467</u>
Total Deductions	<u>2,916,721</u>
Net Increase (Decrease)	1,875,587
Net assets held in trust for pension benefits	
Beginning of year	<u>39,309,231</u>
End of year	<u><u>\$ 41,184,818</u></u>

The accompanying notes are an integral part of these financial statements.

COMPONENT UNITS

CITY OF MARYSVILLE, MICHIGAN

**COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2005**

	Housing Commission	Local Development Finance Authority	Total
ASSETS			
Cash and cash equivalents	\$ 50,284	\$ -	\$ 50,284
Investments	510,169	-	510,169
Receivables	11,438	-	11,438
Prepayments and deposits	11,141	-	11,141
Capital Assets (net of accumulated depreciation)			
Assets not being depreciated	104,253	-	104,253
Assets being depreciated	3,008,041	-	3,008,041
	<hr/>	<hr/>	<hr/>
Total Assets	3,695,326	-	3,695,326
	<hr/>	<hr/>	<hr/>
LIABILITIES			
Payables and current liabilities	84,080	-	84,080
Deferred revenue	326	-	326
Advances and deposits	27,153	-	27,153
Due to primary government	-	23,195	23,195
Non-current liabilities			
Due within one year	-	27,210	27,210
Due in more than one year	-	337,095	337,095
	<hr/>	<hr/>	<hr/>
Total Liabilities	111,559	387,500	499,059
	<hr/>	<hr/>	<hr/>
NET ASSETS			
Investments in Capital Assets, net of related liabilities	3,112,294	-	3,112,294
Unrestricted	471,473	(387,500)	83,973
	<hr/>	<hr/>	<hr/>
Total net assets	\$ 3,583,767	\$(387,500)	\$ 3,196,267
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

CITY OF MARYSVILLE, MICHIGAN

COMBINING STATEMENT OF ACTIVITIES DISCRETELY PRESENTED COMPONENT UNITS FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contribution
Housing Commission	\$ 667,652	\$ 325,445	\$ 217,285	\$ -
Local Development Finance Authority				
Governmental activities:				
Other Activities	382,886	-	-	-
Interest on Long Term Debt	4,614	-	-	-
	<u>387,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Component Units	<u>\$ 1,055,152</u>	<u>\$ 325,445</u>	<u>\$ 217,285</u>	<u>\$ -</u>

General Revenues:

 Unrestricted investment income

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets		
	Local	
Housing Commission	Development Finance Authority	Total
\$(124,922)		\$(124,922)
	(382,886)	(382,886)
	(4,614)	(4,614)
12,801	-	12,801
(112,121)	(387,500)	(499,621)
3,695,888	-	3,695,888
<u>\$ 3,583,767</u>	<u>\$(387,500)</u>	<u>\$ 3,196,267</u>

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity –

The City of Marysville, Michigan was incorporated in 1924, under the provisions of Act 279, P.A. of 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter, including public safety (police, fire, civil defense, and inspections), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the governments' operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate for the City.

BLENDED COMPONENT UNIT -

CITY OF MARYSVILLE BUILDING AUTHORITY - was formed for the purpose of constructing and renovating various Municipal buildings. The main function of the Authority at the present time is to pay off debt. The five (5) member Board is appointed by the Mayor with the City Council confirmation and the City is fiscally responsible for the Authority. As a result, the Authority has been included as a blended component unit.

DISCRETELY PRESENTED COMPONENT UNITS –

MARYSVILLE HOUSING COMMISSION - is a nonprofit entity established pursuant to the Authority of Act 18 of the Public Act of 1933, as amended, which is governed by a five (5) member board appointed by the City Manager. This is a legally separate entity, but is considered a component unit due to the City's ability to influence the Housing Commissions actions through representative on the Housing Commission Board and because of their financial relationship.

The audited financial statements of the Marysville Housing Commission, may be obtained at the following location:

Marysville Housing Commission
1100 New York
Marysville, Michigan 48040

LOCAL DEVELOPMENT FINANCE AUTHORITY – was formed for the purpose of promoting and stimulating local economy. The main function of the Authority at present time is to provide aid to local businesses for economic growth and expansion. The audited financial statements of the Local Development Finance Authority are included with these statements.

FISCAL YEAR ENDS – All of the City Funds operate and are reported on a June 30th year-end with the exception of the Marysville Housing Commission, which operates and is reported as of March 31.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

B. Government-wide and fund financial statements –

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary governments is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes which are levied on July 1, and due on August 31, are recognized as revenue in the year due. Also only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental fund:

General Fund – is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

Water Supply System Fund – is used to account for the treatment and distribution of water to residential and commercial users.

Wastewater Fund – is used to account for sanitary sewer services provided to the residential and commercial users.

Golf Course Fund – is used to account for the operations and activities of operating the City owned golf course.

Additionally, the City reports the following fund types –

Special Revenue Funds – are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

Debt Service Funds – are used to account for the accumulation of resources for, and the payment of long-term general obligation debt of governmental funds.

Capital Projects Fund – are used to account for revenue restricted for the acquisition and/or construction of major capital assets not being financed by proprietary funds.

Internal Service Fund – is used to account for the costs of operating and maintaining the City’s motor pool. Charges are made to other funds based on equipment used.

Pension Trust and Other Employee Trust Funds – are used to accumulate resources for pension, health benefits, and vested vacation and sick for qualified employees.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise and Internal Services Funds are charges to customers for sale and services. Operating expenses from Enterprise and Internal Service Funds include costs of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, the unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity –

Deposits and Investments –

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit with original maturities of three months or less from the date of acquisition. The investment trusts have the general characteristics of demand deposit accounts in that the City may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as cash and cash equivalents.

Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on a national or international exchanges are value at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amount which reasonably approximates fair value.

State statutes authorize the City to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property the receivables are shown net of an allowance for uncollectible.

Inventories and Prepaid Items –

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Property Tax Calendar –

The City’s property tax is levied as of July 1 on the assessed valuation of property located in the City as of the preceding December 31. The taxes are due on July 31 with final collection date as of February 28, after which they are added to the delinquent tax roll. The city also collects taxes for other governmental units which are recorded in the tax fund.

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Property, plant, and equipment is depreciated using the straight line method over the following estimated useful lives:

	Primary <u>Government</u>	Component Units <u>(Housing Commission)</u>
Buildings and Improvements	7-50	40
Land improvements	7-40	-
Utility systems	10-50	-
Machinery and equipment	3-20	3-10
Bikepaths	30	-
Vehicles	3-10	-
Sidewalks	30	-
Streets	20-30	-

Compensated Absences –

In accordance with contracts negotiated with the various employee groups of the City, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. The City has elected to fund vacation and sick time as it is earned. As a result these amounts are appropriately accounted for in the Employees Vacation and Sick Pay Fund.

Long-Term Obligations –

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity –

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Estimates -

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information –

Annual budgets are adopted for the General and Special Revenue Funds on a basis consistent with accounting principles generally accepted in the United States of America and are not significantly different from the modified accrual basis used to reflect actual results.

In January the department heads/responsible individuals are provided various information to prepare the budgets for their department, which are due at the end of January. The City Manager and Finance Director assembles each of the department budgets and prepares one tentative overall budget. The budget is presented to the City Council in April for review. The City Council holds a public hearing and may make any revisions, which, in their opinion and as a result of the public hearing, is necessary.

The general fund budget was approved at the activity level and the total expenditure level for the Special Revenue Funds. Expenditures at these legally adopted levels are a violation of the Budgetary Act. During the year the City incurred expenditures in the General and Special Revenue Fund which was in excess of the amount appropriated as follows:

Excess of Expenditures Over Appropriations –

<u>Fund Type/Function/Activity</u>	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
Major Fund:			
General Fund –			
Public Safety –			
Civil Defense	\$ 3,400	\$ 3,908	\$ 508
Building Inspections	169,405	198,611	29,206
Other	-	13,878	13,878
Public Works –			
Street Lighting	210,000	218,597	8,597
Dial-A-Ride	94,000	115,534	21,534
Sanitation	420,817	422,109	1,292
Other	1,714,791	1,878,656	163,865
Transfers Out	1,415,758	2,119,062	703,304

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – (cont'd):

<u>Fund Type/Function/Activity</u>	<u>Appropriations</u>	<u>Expended</u>	<u>Variance</u>
Non-Major Funds:			
Special Revenue –			
Local Street Fund	\$ 736,228	\$ 760,452	\$ 24,224
Public Improvement Fund	607,836	242,065	365,771

In addition budgets were not adopted for two special revenue funds, Drug Law Enforcement and Industrial Aid Funds.

Other –

As of June 30, 2005, the Local Development Finance Authority (Component Unit) had a deficit fund balance of \$23,195. The deficit will be eliminated as taxes are captured in the district.

NOTE 3 – DEPOSITS AND INVESTMENTS:

Custodial Credit Risk – Deposits –

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Although the City has adopted an investment policy, it does not specifically address custodial credit risk.

The City's investment policy and Act 217 PA 1982, as amended, authorizes the City to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 3 – DEPOSITS AND INVESTMENTS – (cont'd):

As of June 30, 2005, the City had the following deposits:

	Carrying Value	Bank Balance
Primary Government		
Checking/Money Markets	\$ 1,378,083	\$ 1,585,131
Certificate of Deposit	<u>2,007,143</u>	<u>2,007,143</u>
	<u>3,385,226</u>	<u>3,592,274</u>
Fiduciary Unit		
Checking/Money Markets	1,020,805	1,047,879
Certificate of Deposit	<u>1,104,071</u>	<u>1,104,071</u>
	<u>2,124,876</u>	<u>2,151,950</u>
Total Primary Government/Fiduciary Unit	<u>\$ 5,510,102</u>	<u>\$ 5,744,224</u>

Of the bank balance, \$1,776,216 is covered by Federal Depository Insurance, with the remaining \$3,968,008 exposed to credit risk since it is uninsured and uncollateralized.

Discretely Presented Component Units –

Housing Commission		
Savings/Certificate of Deposit	\$ 366,681	\$ 366,681
Checking/Money Markets	<u>503</u>	<u>503</u>
	<u>367,184</u>	<u>367,184</u>

(1) Based on the audit of the Housing Commission, the amount that is covered by FDIC could not be determined.

Investments –

Act 20 PA 1994, as amended by Act 1997 PA 1999, authorizes the City to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase, are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.188; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Cash and investments of the City's retirement system, health care fund and employee vacation and sick pay fund are subject to the requirements of the Public Employee Retirement System Investments Act (MCL 38.1132).

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 3 – DEPOSITS AND INVESTMENTS – (cont'd):

As of June 30, 2005, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Primary Government	
Treasuries and Federal Agencies	\$ 6,853,758
Fiduciary Unit	
Treasuries and Federal Agencies	8,687,427
Bonds	6,696,631
Convertible Securities (Commercial Paper)	2,608,001
Common Stock	21,740,325
Component Units	
Housing Commission	193,169

Interest Rate Risk –

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk –

As indicated above, Michigan compiled laws limit the types of investments the Primary Government can invest in.

In addition, the General City Employees Retirement System and the Policemen and Firemen Retirement System specifies that all debt securities must have a quality rating of Baa/BBB or above by at least (2) of its major rating agencies at the time of issue. The overall rating of the portfolio should be AA or better.

Concentration of Credit Risk –

Primary Government – the City places no limits on the amounts the City may invest with any one issue. More than five percent of the Primary Government investments were invested in the following:

Federal Home Loan Bank	45 %
Federal Home Loan Mortgage Corporation	25

Fiduciary Unit – the General City Employees Retirement System and the Policemen and Firemen Retirement System establish certain minimums and maximums that may be invested in any asset class (International Securities, Small/Mid Cap Equity, Large Cap Equity, Core Bonds, Fixed Income and Cash). The managers may not invest in more than 5% of the outstanding securities of one issuer, nor invest more than 5% of the System's assets in the outstanding securities of one issue, except for Treasury and Agency securities. There is no policy that places limits on the amount any of the other Pension type funds may invest with any one issue.

As of June 30, 2005, the one investment that makes up more than five percent of the Fiduciary Units assets is the Federal Home Loan Bank, which accounts for approximately 12 percent.

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 4 – RECEIVABLES:

Receivables in the governmental and business type activities are as follows:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>
Property Taxes	\$ 272,451	\$ -
Interest and accounts	89,261	628,598
Special Assessments	27,528	-
Intergovernmental –		
Federal/State		267,761 -
Local	<u>54,963</u>	<u>-</u>
	711,964	628,598
Less – allowance for uncollectible	<u>(213,000)</u>	<u>-</u>
	<u>\$ 498,964</u>	<u>\$ 628,598</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund –		
Property taxes	\$ 52,896	\$ -
Grants	6,813	-
Nonmajor Governmental Funds –		
Motor Vehicle Highway –		
Property taxes	1,171	-
Special Assessments	<u>21,383</u>	<u>-</u>
Total deferred/unearned receivables to governmental funds	<u>\$ 82,263</u>	<u>\$ -</u>

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 5 – CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2005 was as follows:

	July 1, 2004 <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	June 30, 2005 <u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,008,932	\$ 67,194	\$ -	\$ 1,076,126
Construction in progress	<u>497,194</u>	<u>200,282</u>	<u>-</u>	<u>697,476</u>
Total capital assets, not being depreciated	<u>1,506,126</u>	<u>267,476</u>	<u>-</u>	<u>1,773,602</u>
Capital assets, being depreciated:				
Buildings	6,052,486	-	-	6,052,486
Building improvements	482,622	-	-	482,622
Land improvements	1,606,504	60,518	-	1,667,022
Machinery and equipment	2,235,685	127,189	44,592	2,318,282
Vehicles	1,323,831	27,960	-	1,351,791
Bikepaths	360,161	-	-	360,161
Sidewalks	2,037,397	86,947	-	2,124,344
Streets	<u>33,084,675</u>	<u>157,347</u>	<u>-</u>	<u>33,242,022</u>
Total capital assets being depreciated	<u>47,183,361</u>	<u>459,961</u>	<u>44,592</u>	<u>47,598,730</u>
Less accumulated depreciation for:				
Buildings	1,865,759	109,269	-	1,975,028
Building improvements	219,339	50,465	-	269,804
Land improvements	853,884	138,470	-	992,354
Machinery and equipment	1,272,271	219,966	44,592	1,447,645
Vehicles	1,047,234	99,685	-	1,146,919
Bikepaths	57,158	12,005	-	69,163
Sidewalks	1,290,782	71,184	-	1,361,966
Streets	<u>20,078,171</u>	<u>1,444,664</u>	<u>-</u>	<u>21,522,835</u>
Total accumulated depreciation	<u>26,684,598</u>	<u>2,145,708</u>	<u>44,592</u>	<u>28,785,714</u>
Total capital assets being depreciated, net	<u>20,498,763</u>	<u>(1,685,747)</u>	<u>-</u>	<u>18,813,016</u>
Governmental activities capital assets, net	<u>\$ 22,004,889</u>	<u>\$(1,418,271)</u>	<u>\$ -</u>	<u>\$ 20,586,618</u>
Business Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 91,500	\$ -	\$ -	\$ 91,500
Land improvements	578,607	-	46,237	532,370
Construction in progress	<u>1,908,931</u>	<u>786,358</u>	<u>77,934</u>	<u>2,617,355</u>
Total capital assets, not being depreciated	<u>2,579,038</u>	<u>786,358</u>	<u>124,171</u>	<u>3,241,225</u>

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 5 – CAPITAL ASSETS – (cont'd):

	July 1, 2004			June 30, 2005
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Capital assets, being depreciated:				
Buildings	6,410,051	-	-	6,410,051
Building improvements	372,790	-	-	372,790
Land Improvements	-	46,237	-	46,237
Water and sewer systems	14,089,045	178,077	-	14,267,122
Machinery and equipment	<u>1,842,685</u>	<u>221,999</u>	-	<u>2,064,684</u>
Total capital assets being depreciated	<u>22,714,571</u>	<u>446,313</u>	-	<u>23,160,884</u>
Less accumulated depreciation for:				
Buildings	3,379,169	127,484	-	3,506,653
Building improvements	210,819	18,120	-	228,939
Land Improvements	-	8,092	-	8,092
Water and sewer systems	3,551,053	289,547	-	3,840,600
Machinery and equipment	<u>1,009,879</u>	<u>139,399</u>	-	<u>1,149,278</u>
Total accumulated depreciation	<u>8,150,920</u>	<u>582,642</u>	-	<u>8,733,562</u>
Total capital assets being depreciated, net	<u>14,563,651</u>	<u>(136,329)</u>	-	<u>14,427,322</u>
Business activities capital assets, net	<u>\$17,142,689</u>	<u>\$ 650,029</u>	<u>\$ 124,171</u>	<u>\$ 17,668,547</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 65,930
Public Safety	232,491
Health and Welfare	1,677,972
Recreation and Cultural	<u>25,656</u>
Total depreciation expense-governmental activities	<u>\$ 2,002,049</u>
Business-type activities:	
Golf Commission	\$ 58,524
Water Fund	272,239
Sewer Fund	<u>251,879</u>
Total depreciation expense-business-type activities	<u>\$ 582,642</u>

In addition there was depreciation of \$143,659 in the Motor Pool Fund.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 5 – CAPITAL ASSETS – (cont'd):

Housing Commission – Activity for the Housing Commission for the year ended June 30, 2005 was as follows:

	Balance April 1, 2004	Additions	Deletions	Balance March 31, Balance
Capital assets, not being depreciated:				
Land	\$ 104,253	-	-	\$ 104,253
Capital assets, being depreciated:				
Buildings	3,768,997	-	-	3,768,997
Furniture and equipment	194,244	16,496	-	210,740
Leasehold improvements	<u>1,390,815</u>	<u>175,648</u>	-	<u>1,566,463</u>
Total Capital Assets being depreciated	5,354,056	192,144	-	5,546,200
Less accumulated depreciation for	<u>2,359,497</u>	<u>178,662</u>	-	<u>2,538,159</u>
 Total capital assets being depreciated	 <u>2,994,559</u>	 <u>13,482</u>	 -	 <u>3,008,041</u>
Housing Commissioner capital assets, net	<u>\$ 3,098,812</u>	<u>\$ 13,482</u>	<u>\$ -</u>	<u>\$ 3,112,294</u>

Depreciation expense for 2005 was \$178,662.

NOTE 6 – PAYABLES:

Payables in the governmental and business-type activities are as follows:

	Governmental Activities	Business-Type Activities
Accounts payable/accrued liabilities	\$ 242,065	\$ 383,471
Accrued wages and fringe benefits	<u>63,345</u>	<u>18,901</u>
	<u>\$ 305,410</u>	<u>\$ 402,372</u>

NOTE 7 – INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:

The composition of interfund balances as of June 30, 2005:

Due To/From Other Funds –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	City Employees Retirement	\$ 19,495
	1965 Police and Fire Retirement	<u>35,937</u>
		<u>55,432</u>
Fiduciary Funds –		
City Employees Retirement	General Fund	10,145
1965 Police and Fire Retirement	General Fund	13,058
Pension Health Care	Water Supply System	<u>100,000</u>
		<u>123,203</u>
	Total	<u>\$ 178,635</u>
	- 41 -	

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 7 – INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS – (cont'd):

Due To/From Primary Government & Component Units –

General Fund	Local Development Finance Authority	23,195
General Fund	Housing Commission	<u>40,389</u>
		<u>\$ 63,584</u>

There is no liability in the Housing Commission's component unit financial statements since it is represented on a March 31, 2005 year end.

Advance To/From Other Funds –

General Fund	Golf Course	<u>\$ 264,772</u>
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Transfers From/To Other Funds –

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Motor Pool Fund	\$ 295,770
Major Streets Fund	Motor Vehicle Highway Fund	18,500
	Motor Pool Fund	91,849
Local Streets Fund	Major Streets Fund	307,078
	Motor Vehicle Highway Fund	50,000
	Public Improvement Fund	30,000
	Motor Pool Fund	183,196
Motor Vehicle Highway	General Fund	458,611
Park and Recreation	General Fund	309,876
Public Improvement	General Fund	573,271
Building Authority Debt Fund	Motor Pool Fund	53,382
	Building Authority Capital Project Fund	3,925
	Waste Water Fund	53,382
	Water Fund	53,382
	General Fund	77,304

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 7 – INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS – (cont'd):

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Waste Water Fund	Motor Pool Fund	69,676
Water Fund	Motor Pool Fund	<u>105,509</u>
	Total Transfers	<u>\$ 2,734,711</u>

There were also transfers from governmental funds to the Pension Health Care Fund that has been recorded as employer contributions in the Fiduciary Funds as follows:

Fiduciary Funds		
Pension Health Care Fund	General Fund	\$ 700,000
	Local Improvement and Revolving	118,582
	Water Fund	100,000
	Waste Water Fund	<u>100,000</u>
	Total Transfers	<u>\$ 1,018,582</u>

NOTE 8 - LONG-TERM DEBT:

PRIMARY GOVERNMENT -

The following is a summary of changes in the long-term debt (including current portions) for the year ended June 30, 2005:

	Balance July 1, 2004	<u>Additions</u>	<u>Reductions</u>	Balance June 30, 2005	Due Within One Year
<u>Governmental Activities:</u>					
Governmental Fund -					
Building Authority Bonds	\$ 2,750,000	\$ -	\$ 2,650,000	\$ 100,000	\$ 100,000
Building Authority Refunding Bond	<u>-</u>	<u>2,680,000</u>	<u>-</u>	<u>2,680,000</u>	<u>-</u>
Deferred Amounts	2,750,000	2,680,000	2,650,000	2,780,000	100,000
Refunding Loss	<u>-</u>	<u>(111,683)</u>	<u>18,050</u>	<u>(93,633)</u>	<u>-</u>
	<u>2,750,000</u>	<u>2,568,317</u>	<u>2,631,950</u>	<u>2,686,367</u>	<u>100,000</u>
<u>Business Activities:</u>					
Enterprise Funds –					
Wastewater Fund –					
Michigan Municipal Bond					
Authority Wastewater Loans -					
Phase I 1993	1,285,000	-	115,000	1,170,000	120,000
Phase II 1996	2,930,000	-	185,000	2,745,000	185,000
Clean Water Program					
2003	<u>1,224,848</u>	<u>1,028,996</u>	<u>-</u>	<u>2,253,844</u>	<u>-</u>
Total Business Activities	<u>5,439,848</u>	<u>1,028,996</u>	<u>300,000</u>	<u>6,168,844</u>	<u>305,000</u>
Total Entity Primary Government	<u>\$ 8,189,848</u>	<u>\$ 3,597,313</u>	<u>\$ 2,931,950</u>	<u>\$ 8,855,211</u>	<u>\$ 405,000</u>

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 8 - LONG-TERM DEBT - (cont'd):

Significant details regarding outstanding long-term debt (including current portions) are presented as follows:

Building Authority Bonds in the amount of \$3,225,000 were issued on October 1, 1996 for the purpose of constructing the Police/Fire Station and the purchase of the DPW Building. The bonds were partially refunded in 2005. The remaining bonds are due in a final installment of \$100,000 on October 1, 2005, plus interest of 7.875 percent.

\$ 100,000

On February 17, 2005, the City issued \$2,680,000 General Obligation – limited tax refunding bonds to purchase U.S. Government, State and Local Service Securities that were placed in an irrevocable trust for the purpose of generating Resources for future debt services payments of \$3,225,000 of the 1996 Building Authority Bonds. As a result, the Refunding bonds have been removed from the City's financial statements. The reacquisition price was lower than the net carrying amount of the old debt by \$111,683. This amount is being capitalized and amortized over the remaining life of the refunding debt, which is the same as the life of the refunded debt. This advance refunding was undertaken to reduce the total debt service payments over the next 15 years and resulted in an economic loss of \$111,683. The bonds are due in annual installments ranging from \$125,000 to \$245,000 through October 2021, plus interest ranging from 2.500 to 4.375 percent, Payable semi-annually

\$ 2,680,000

Michigan Municipal Bond Authority Wastewater Loans were obtained for the purpose of separating the City's sanitary and storm sewer system. The debt and related interest is being repaid through operating revenues of the wastewater fund.

The Phase I loan in the original amount of \$2,375,181 is due in annual installments ranging from \$30,000 to \$135,000 through October 1, 2014, plus interest of 2.0 percent, payable semi-annually

\$ 1,170,000

The Phase II loan in the original amount of \$3,950,000 is due in annual installments ranging from \$180,000 to \$240,000 through October 1, 2018, plus interest of 2.25 percent, payable semi-annually

2,745,000

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 8 - LONG-TERM DEBT - (cont'd):

The Clean Water Program Loan for the purpose of eliminating discharge into the St. Clair River in the original amount of \$2,550,000 is due in annual installments ranging from \$100,000 to \$160,000 through October 1, 2024, plus interest of 2.50% payable semi-annually. As of June 30, 2005 only \$2,253,844 had been drawn

2,253,844

\$ 6,168,844

The annual debt service requirements to maturities for the long-term obligations outstanding at June 30, 2004 (excluding vacation and sick and the Clean Water Program loan since the full amount of the loan has not been drawn and a repayment schedule determined) are as follows:

Year Ending June 30,	Building Authority Bonds		Municipal Bond Authority Loans	
	Principal	Interest	Principal	Interest
2006	\$ 100,000	\$ 115,315	\$ 305,000	\$ 81,881
2007	125,000	97,696	310,000	75,263
2008	120,000	94,484	315,000	68,531
2009	120,000	91,034	320,000	61,694
2010	145,000	87,059	325,000	54,750
2011-2015	750,000	360,594	1,635,000	165,006
2016-2020	955,000	197,844	705,000	24,019
2021-2022	<u>465,000</u>	<u>20,891</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,780,000</u>	<u>\$ 1,064,917</u>	<u>\$ 3,915,000</u>	<u>\$ 531,144</u>

Component Units -

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005	Due Within One Year
Local Development Finance Authority					
Land Contract	\$ -	\$ 371,512	\$ 7,207	\$ 364,305	\$ 27,210

During the year, the Local Development Finance Authority purchased property and issued a note for \$371,512 that will be repaid in monthly installments of \$3,940, including interest of 5% through April 4, 2015.

NOTE 9 – RETIREMENT PLANS:

The City has three single employee defined benefit retirement plans covering substantially all employees as follows:

General City Employees Retirement System
Police Officers and Firefighters Retirement System – 1940 Plan
Police Officers and Firefighters Retirement System – 1965 Plan

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 9 – RETIREMENT PLANS - (cont'd):

Plan Descriptions

General City Employee Retirement System -

General City Employees Retirement System – was established by City Council in 1945 for the purpose of continuing and providing retirement income to certain employees and retired employees and survivor benefits to their eligible beneficiaries. The system is administered, managed and operated by a five (5) member board of trustees, which is composed of the Mayor of the City of Marysville, one (1) council member selected by the City Council, a citizen who is not a member and two (2) members of the retirement system.

The membership at July 1, 2004 was comprised of 48 active participants, 41 retirees and beneficiaries, and 5 other inactive participants.

In general all employees are eligible for retirement on attainment of age 60/62 and 5 years of service or age 55 and 25 years of service. The annual normal pension payable is equal to 2.25% of final average compensation multiplied by the number of years of credited service.

Police Officers and Firefighters System – 1940 Plan –

The Police Officers and Firefighters Retirement System – 1940 Plan was established by City Charter in 1940 to provide retirement for police and firefighters and their beneficiaries with twenty-five (25) years of service. In general any member who retired is entitled to one-half of the pay of the rank in which such member was serving at the time of retirement, and in the event of change of rank at any time thereafter, in said rate of pay, then at the rate of one-half of the pay of said rank so changed.

The plan was superseded by the 1964 plan and as of June 30, 2005 there was only one (1) retiree (beneficiary) receiving benefits.

Police Officers and Firefighters Retirement System – 1964 Plan -

The Police Officers and Firefighters Retirement System – 1965 Plan was established by City Charter in 1965 for the purpose of providing pensions for Police Officers and Firefighters who retire on account of superannuation or total and permanent disability, and to provide survivor pensions to certain dependents. The system is administered, managed and operated by a five (5) member board of trustees, which is comprised of the Mayor or his appointee (must be a Council member) one (1) council members selected by the City Council, a citizens who is not a member, one (1) police officer member and one (1) firefighter member.

The membership at July 1, 2004 was comprised of 25 active participants, 25 retirees and beneficiaries, and 1 other inactive participant.

In general all employees are eligible for normal retirement on attainment of age 55 and 5 years of service. The annual normal pension payable is equal to 2.5% for final salary multiplied by the number of years of credited service, subject to a maximum of 25 years, plus 2% of final average salary multiplied by the number of years of credited service in excess of 25 years.

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 9 – RETIREMENT PLANS - (cont'd):

Summary of Significant Accounting Policy -

Basis of Accounting -

The plans utilize the accrual basis of accounting and is reported within the City's reporting entity as separate Pension Trust Funds. Contributions from employees are recognized as revenues in the period in which employees provide the services.

Method Used to Value Investments -

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchanges are valued at the last reported sales at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Contributions and Funding Policy

Participants of the General City Employees Retirement System and the Police Officers and Fire Retirement System – 1965 plan contribute 5% of compensation with the remaining amount contributed by the City based on a actuarially determined amounts. There is no member contribution for the Police Officers and Firefighters Retirement System – 1940 plan. The City contributes to this plan on a pay as you go method.

General City Employee Retirement System -

For fiscal 2005, the actuarially determined contribution was \$366,690 (16.03% of covered payroll).

The required contribution was determined as part of the July 1, 2004 actual valuation using the actuarial cost method. The actual assumptions include (a) a rate of return of 8.0% (b) projected salary increases of 4.00 per year, and (c) the 1989 Buck Mortality Table.

Schedule of Employer Contribution

Fiscal Year Ending <u>June 30,</u>	Annual Pension <u>Costs (APC)</u>	Percentage of APC <u>Contribution</u>	Net Pension <u>Obligation</u>
2003	153,461	100	-
2004	365,510	100	-
2005	366,690	100	-

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 9 – RETIREMENT PLANS - (cont'd):

Schedule of Funding Progress

Valuation Date	Actuarial Value of of Assets (a)	Unfunded Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Accrued Liability (UAAL) (b-a)	UAAL Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)(c)
2002	17,040,860	16,746,879	(293,981)	101.76	2,252,770	13.05
2003	16,803,758	17,831,503	1,027,795	94.24	2,300,897	44.67
2004	17,172,124	18,776,905	1,604,781	91.45	2,289,952	70.08

Police Officers and Firefighters Retirement System – 1964 Plan –

For fiscal 2005, the actuarially determined contribution was \$492,784 (30.76% of covered payroll).

The required contribution was determined as part of the July 1, 2004 actual valuation using the actuarial cost method. The actual assumptions include (a) a rate of return of 8.0% (b) projected salary increases of 4.00 per year, and (c) the 1989 Buck Mortality Table.

Schedule of Funding Progress

Valuation Date	Actuarial Value of of Assets (a)	Unfunded Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Accrued Liability (UAAL) (b-a)	UAAL Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)(c)
2002	15,052,172	14,574,723	(477,449)	103.28	1,645,893	(29.01)
2003	14,578,126	15,195,489	617,363	95.94	1,733,318	35.62
2004	14,683,776	18,075,358	3,341,582	81.46	1,602,030	208.58

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2003	130,371	100
2004	289,907	100
2005	492,784	100

Police Officers and Firefighters Retirement System – 1940 Plan -

Schedule of Employer Contributions

Year Ended June 30,	Annual Contribution
2003	34,625
2004	35,665
2005	36,700

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 10 – POST RETIREMENT BENEFITS:

The City provides health and life insurance benefits to most of the retirees in Note 9. The City funds the benefits on the pay-as-you-go method which amounted to \$293,618 for fiscal 2005. In addition, the City has established a Pension Health Care Fund to accumulate resources to fund a portion of the unfunded benefit. An actuarial report is commissioned by the City Council at least once every five years to see the City's progress in funding the benefit.

NOTE 11 - DEFERRED COMPENSATION:

The City offers their employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

A trust, custodial account or annuity contract exists, assets are owned or held by the trust, custodian or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries.

NOTE 12 - FUND EQUITY:

RESERVED FUND BALANCE -

Fund Balance has been reserved in various governmental funds to indicate the portion of Fund Balance not available but reserved for a specific purpose. The following is a summary of Reserved Fund Balance at June 30, 2005:

<u>Fund Type/Fund</u>	<u>Description</u>	<u>Amount</u>
General Fund	State Construction	\$ 35,321
	Fire	5,465
	Historical	3,121
	DARE	20,659
	Donation	162
	Advance to Other Funds	264,772
	Prepaid Expense	<u>109,472</u>
		<u>438,972</u>
Nonmajor Funds		
Parks and Recreation	Millage	57,706
	Prepaid Expense	2,560
Motor Vehicle Highway	Capital Projects	759,279
Building Authority	Capital Projects	543,703
Cemetery Perpetual Care	Perpetual Care	<u>303,844</u>
		<u>1,667,092</u>
		<u>2,106,064</u>

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 12 - FUND EQUITY – (cont'd):

DESIGNATED FUND BALANCE -

The City Council has the power to designate, or set aside, all or a portion of the unreserved Fund Balance for specified purpose. The following is a summary of designated fund balance at June 30, 2005:

<u>Fund Type/Fund</u>	<u>Description</u>	<u>Amount</u>
General Fund	Library Improvements	\$ 29,012
	New Equipment	30,000
	Building Improvements	203,850
	Industrial/Commercial Development	17,618
	EMS Equipment	<u>581,226</u>
		861,706
Parks and Recreation	Recreation Projects	<u>32,671</u>
		<u>\$ 894,377</u>

Retained Earnings –

The City has designated, or set aside, a portion of the unreserved retained earnings for specific purposes. The following is a summary of the designated retained earnings at June 30, 2005:

<u>Fund Type/Fund</u>	<u>Description</u>	<u>Amount</u>
Wastewater Fund	Fringe Benefits	\$ 363,789
Water Fund	Future Improvements	438,000
Golf Course Fund	Fringe Benefits	<u>50,000</u>
		851,789
Motor Pool Fund	Refuse Truck	<u>146,000</u>
		<u>\$ 997,789</u>

NOTE 13 – RISK MANAGEMENT:

General Liability and Property

The City participates in the Michigan Municipal League Liability and Property Pool insurance plan. In general the City carries \$10,000,000 of liability coverage and approximately \$32,000,000 of property insurance with a \$1,000 per claim deductible on property and \$0 on liability.

Workers Compensation

The City participates in the Michigan Municipal Workers' Compensation Self-Insurance Fund administered by the Michigan Municipal League. The fund provides coverage of workers compensation claims subjected to a maximum of \$500,000 per occurrence.

CITY OF MARYSVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 14 – CONTINGENT LIABILITIES:

Currently there are a few City taxpayers appealing their real and personal property tax assessments that could have an impact on the City's revenues. One of these taxpayers, the Detroit Edison, is appealing its tax assessment on the Edison plant located in the City for the 2003 and 2004 tax levies. In addition the Detroit Edison and SEMCO Gas Co. are appealing a number of its personal property tax assessments for the years 1997 to 2004, some of which have been paid and some of which have not. (Many of these taxpayers are also appealing their 2005 tax assessment that was billed on July 1, 2005). Should these taxpayers all prevail the City would be required to refund approximately \$740,000, not including the July 1, 2005 tax bill. The City intends to vigorously defend these matters. Due to the inconclusive nature of the appeal it is impossible to estimate any potential liability, if any.

The City is also the defendant in a claim filed by approximately 75 residents as a result of flooding during a large storm that hit the City in May 2004. The plaintiff's request compensation in excess of \$25,000 each. The City intends to vigorously defend this claim and due to the inconclusive nature of the action it is impossible to estimate any ultimate liability, if any. The City insurance would only cover the City for an aggregate of \$75,000 should any of the claims prevail. The City administration expects that any liability subsequently determined, will not have a material adverse effect on the City's financial condition.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MARYSVILLE, MICHIGAN

**REQUIRED SUPPLEMENTARY INFORMATION
EMPLOYEE RETIREMENT SYSTEM**

GENERAL CITY EMPLOYEES RETIREMENT SYSTEM

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/95	\$ 9,146,510	\$ 10,078,549	\$ 932,039	90.75%	\$ 1,650,539	56.47%
07/01/96	10,048,696	10,971,000	922,304	91.59%	1,780,992	51.79%
07/01/97	11,808,717	11,754,168	(54,549)	100.46%	1,906,874	-2.86%
07/01/98	13,686,707	12,734,370	(952,337)	107.48%	1,916,506	-49.69%
07/01/99	15,648,850	14,034,351	(1,614,499)	111.50%	1,975,246	-81.74%
07/01/00	16,941,119	15,032,094	(1,909,025)	112.70%	1,994,771	-95.70%
07/01/01	17,335,570	16,242,162	(1,093,408)	106.73%	2,108,013	-51.87%
07/01/02	17,040,860	16,746,879	(293,981)	101.76%	2,252,770	-13.05%
07/01/03	16,803,758	17,831,503	1,027,745	94.24%	2,300,897	44.67%
07/01/04	17,172,124	18,776,905	1,604,781	91.45%	2,289,952	70.08%

Schedule of Employer Contributions

Year Ended 30-Jun	Annual Required Contributions	Percentage Contributed
1996	\$ 309,799	48.00%
1997	324,245	89.80%
1998	197,841	184.70%
1999	58,044	186.30%
2000	-	100.00%
2001	-	100.00%
2002	30,650	100.00%
2003	153,461	100.00%
2004	365,510	100.00%
2005	366,690	100.00%

CITY OF MARYSVILLE, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION EMPLOYEE RETIREMENT SYSTEM

POLICE OFFICERS AND FIREFIGHTERS RETIREMENT SYSTEM

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/95	\$ 8,757,556	\$ 9,109,618	\$ 352,062	96.14%	\$ 1,187,562	29.65%
07/01/96	9,565,878	9,303,476	(262,402)	102.82%	1,264,256	-20.76%
07/01/97	11,156,747	10,098,786	(1,057,961)	110.48%	1,317,298	-80.31%
07/01/98	12,788,100	10,635,002	(2,153,098)	120.25%	1,303,449	-165.18%
07/01/99	14,447,397	11,899,712	(2,547,685)	121.41%	1,405,018	-181.33%
07/01/00	15,473,531	13,310,991	(2,162,540)	116.25%	1,436,920	-150.50%
07/01/01	15,580,355	14,246,713	(1,333,642)	109.36%	1,682,405	-79.27%
07/01/02	15,052,172	14,574,723	(477,449)	103.28%	1,645,893	-29.01%
07/01/03	14,578,126	15,195,489	617,363	95.94%	1,733,318	35.62%
07/01/04	14,683,776	18,025,358	3,341,582	81.46%	1,602,030	208.58%

Schedule of Employer Contributions

Year Ended 30-Jun	Annual Required Contributions	Percentage Contributed
1996	\$ 98,093	201.00%
1997	-	100.00% *
1998	-	100.00%
1999	-	100.00%
2000	-	100.00%
2001	-	100.00%
2002	-	100.00%
2003	130,371	100.00%
2004	289,907	100.00%
2005	492,784	100.00%

* Actual contributions made for 1997 was \$138,938

CITY OF MARYSVILLE, MICHIGAN

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes	\$ 6,162,007	\$ 6,270,943	\$ 108,936
Licenses and permits	230,000	361,368	131,368
Intergovernmental -			
Federal	-	57,356	57,356
State	1,075,950	1,074,054	(1,896)
Charges for services	199,500	247,479	47,979
Fines and forfeits	20,000	26,503	6,503
Interest and rents	219,400	468,935	249,535
Other	22,000	39,788	17,788
	<u>7,928,857</u>	<u>8,546,426</u>	<u>617,569</u>
Expenditures:			
General Government -			
Legislative	22,800	18,154	4,646
City Manager	152,600	149,213	3,387
City Assessor/Clerk/Treasurer	297,286	268,285	29,001
Board of Review	2,640	1,446	1,194
Cemetery	60,800	40,242	20,558
Community Development	75,075	54,792	20,283
General administration	398,388	186,952	211,436
	<u>1,009,589</u>	<u>719,084</u>	<u>290,505</u>
Less: Reimbursement from other funds	<u>(229,658)</u>	<u>(230,569)</u>	<u>911</u>
Total General Government	<u>779,931</u>	<u>488,515</u>	<u>291,416</u>
Public Safety -			
Fire department	992,980	962,407	30,573
Police department	1,474,672	1,383,933	90,739
Civil defense	3,400	3,908	(508)
Building Inspections	169,405	198,611	(29,206)
Other	-	13,878	(13,878)
	<u>2,640,457</u>	<u>2,562,737</u>	<u>77,720</u>
Public Works -			
Department of public works	627,718	559,217	68,501
Street lighting	210,000	218,597	(8,597)
Dial-A-Ride	94,000	115,534	(21,534)
Sanitation	420,817	422,109	(1,292)
	<u>1,352,535</u>	<u>1,315,457</u>	<u>37,078</u>

Continued

CITY OF MARYSVILLE, MICHIGAN

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Recreational and Cultural-			
Parks	\$ 207,700	\$ 139,052	\$ 68,648
Beautification committee	19,470	7,239	12,231
Library	58,380	37,113	21,267
Historical commission	36,850	29,017	7,833
	<u>322,400</u>	<u>212,421</u>	<u>109,979</u>
Other	<u>1,714,791</u>	<u>1,878,656</u>	<u>(163,865)</u>
Capital Outlay	<u>147,108</u>	<u>63,123</u>	<u>83,985</u>
Total Expenditures	<u>6,957,222</u>	<u>6,520,909</u>	<u>436,313</u>
Excess of revenues over (under) expenditures	<u>971,635</u>	<u>2,025,517</u>	<u>1,053,882</u>
Other Financing Sources (Uses):			
Transfers In			
Motor Pool	295,771	295,770	(1)
Transfer Out-			
Public Improvement	(458,611)	(458,611)	-
Motor vehicle Highway	(573,271)	(573,271)	-
Recreation	(309,876)	(309,876)	-
Retiree Health	-	(700,000)	(700,000)
Building Authority	(74,000)	(77,304)	(3,304)
	<u>(1,119,987)</u>	<u>(1,823,292)</u>	<u>(703,305)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(148,352)</u>	<u>202,225</u>	<u>350,577</u>
Fund Balance at beginning of year	<u>4,615,189</u>	<u>4,615,189</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 4,466,837</u>	<u>\$ 4,817,414</u>	<u>\$ 350,577</u>

Concluded

SUPPLEMENTARY INFORMATION

CITY OF MARYSVILLE, MICHIGAN

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2005**

	Special Revenue Funds			
	Major Street	Local Street	Drug Law Enforcement	Public Improvement
ASSETS				
Cash and cash equivalents	\$ 5,965	\$ 207,725	\$ 10,482	\$ 99,316
Investments	396,407	-	-	545,050
Receivables -				
Current and delinquent property taxes	-	-	-	737
Accounts and interest	-	-	-	-
Special Assessments	-	-	-	27,528
Due from other governmental units -				
Federal/State	71,396	58,213	-	-
Local	-	-	-	-
Due from component unit	-	-	-	-
Prepaid expenditures and deposits	-	-	-	-
Total Assets	<u>\$ 473,768</u>	<u>\$ 265,938</u>	<u>\$ 10,482</u>	<u>\$ 672,631</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 18,460	\$ 902	\$ -	\$ 4,049
Accrued liabilities	2,636	11,525	-	-
Deferred revenue	-	-	-	21,383
Total Liabilities	<u>21,096</u>	<u>12,427</u>	<u>-</u>	<u>25,432</u>
Fund Balance:				
Reserved -				
Prepaid	-	-	-	-
Capital Projects	-	-	-	-
Millage	-	-	-	-
Permanent Fund				
Expendable	-	-	-	-
Nonexpendable	-	-	-	-
Unreserved -				
Designated-				
Special Revenue Funds	-	-	-	-
Undesignated	452,672	253,511	10,482	647,199
Total Fund Balance	<u>452,672</u>	<u>253,511</u>	<u>10,482</u>	<u>647,199</u>
Total Liabilities and Fund Balance	<u>\$ 473,768</u>	<u>\$ 265,938</u>	<u>\$ 10,482</u>	<u>\$ 672,631</u>

Special Revenue Funds			Debt Service Fund	Capital Projects Funds	
Industrial Development	Parks and Recreation	Industrial Aid	Building Authority	Building Authority	Motor Vehicle Highway
\$ 91,267	\$ 62,265	\$ -	\$ -	\$ 64,056	\$ 119,115
195,449	-	-	-	479,647	640,164
-	-	-	-	-	1,171
-	1,228	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	36,721	-	-	-	-
23,195	-	-	-	-	-
-	2,560	-	-	-	-
<u>\$ 309,911</u>	<u>\$ 102,774</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 543,703</u>	<u>\$ 760,450</u>
\$ -	\$ 3,194	\$ -	\$ -	\$ -	\$ -
-	6,643	-	-	-	-
-	-	-	-	-	1,171
-	9,837	-	-	-	1,171
-	2,560	-	-	-	-
-	-	-	-	543,703	759,279
-	57,706	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	32,671	-	-	-	-
309,911	-	-	-	-	-
<u>309,911</u>	<u>92,937</u>	<u>-</u>	<u>-</u>	<u>543,703</u>	<u>759,279</u>
<u>\$ 309,911</u>	<u>\$ 102,774</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 543,703</u>	<u>\$ 760,450</u>

Continued

CITY OF MARYSVILLE, MICHIGAN

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2005**

	Capital Projects Fund	Permanent Fund	
	Local	Cemetery	
	Improvement	Perpetual	
	and Revolving	Care	
ASSETS			Total
Cash and cash equivalents	\$ -	\$ 24,757	\$ 684,948
Investments	-	279,087	2,535,804
Receivables -			
Current and delinquent property taxes	-	-	1,908
Accounts and interest	-	-	1,228
Special assessments	-	-	27,528
Due from other governmental units -			
Federal/State	-	-	129,609
Local	-	-	36,721
Due from component unit	-	-	23,195
Prepaid expenditures and deposits	-	-	2,560
Total Assets	<u>\$ -</u>	<u>\$ 303,844</u>	<u>\$ 3,443,501</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 26,605
Accrued liabilities	-	-	20,804
Deferred revenue	-	-	22,554
Total Liabilities	<u>-</u>	<u>-</u>	<u>69,963</u>
Fund Balance:			
Reserved -			
Prepaid	-	-	2,560
Capital Projects	-	-	1,302,982
Millage	-	-	57,706
Permanent Fund			
Expendable	-	110,599	110,599
Nonexpendable	-	193,245	193,245
Unreserved -			
Designated-			
Special Revenue Funds	-	-	32,671
Undesignated	-	-	1,673,775
Total Fund Balance	<u>-</u>	<u>303,844</u>	<u>3,373,538</u>
Total Liabilities and Fund Balance	<u>\$ -</u>	<u>\$ 303,844</u>	<u>\$ 3,443,501</u>

Concluded

CITY OF MARYSVILLE, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005**

	Special Revenue Funds			
	Major Street	Local Street	Drug Law Enforcement	Public Improvement
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ 183
Intergovernmental -				
Federal/State	441,410	204,050	-	-
Local	-	-	-	-
Interest and rent	11,021	1,548	117	4,739
Special assessment	-	-	-	19,497
Other	4,576	140	7,104	500
Total Revenues	<u>457,007</u>	<u>205,738</u>	<u>7,221</u>	<u>24,919</u>
Expenditures:				
Current -				
Public Safety	-	-	486	-
Public Works	254,786	568,788	-	-
Recreation and Cultural	-	-	-	-
Other	-	-	-	33,503
Capital Outlay	16,080	191,664	-	178,562
Debit Service				
Principal	-	-	-	-
Interest and charges	-	-	-	-
Issuance costs	-	-	-	-
Total Expenditures	<u>270,866</u>	<u>760,452</u>	<u>486</u>	<u>212,065</u>
Excess of revenues over (under) expenditures	<u>186,141</u>	<u>(554,714)</u>	<u>6,735</u>	<u>(187,146)</u>
Other Financing Sources (Uses):				
Bond Proceeds	-	-	-	-
Bond Premium	-	-	-	-
Payment to refunding bond escrow agent	-	-	-	-
Transfers In	110,349	570,274	-	458,611
Transfers Out	<u>(307,078)</u>	<u>-</u>	<u>-</u>	<u>(30,000)</u>
Total Other Financing Sources (Uses)	<u>(196,729)</u>	<u>570,274</u>	<u>-</u>	<u>428,611</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(10,588)</u>	<u>15,560</u>	<u>6,735</u>	<u>241,465</u>
Fund Balances at beginning of year	<u>463,260</u>	<u>237,951</u>	<u>3,747</u>	<u>405,734</u>
Fund Balances at end of year	<u><u>\$ 452,672</u></u>	<u><u>\$ 253,511</u></u>	<u><u>\$ 10,482</u></u>	<u><u>\$ 647,199</u></u>

Special Revenue Funds			Debt Service Fund	Capital Projects Funds	
Industrial Development	Parks and Recreation	Industrial Aid	Building Authority	Building Authority	Motor Vehicle Highway
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 110
-	-	500,000	-	-	29,655
-	36,722	-	-	-	-
6,710	3,306	-	-	20,460	6,159
-	-	-	-	-	-
-	14,180	-	-	-	-
<u>6,710</u>	<u>54,208</u>	<u>500,000</u>	<u>-</u>	<u>20,460</u>	<u>35,924</u>
-	-	-	-	-	-
-	-	-	-	5,204	8,439
-	265,245	-	-	-	-
1,000	-	500,000	-	-	-
-	67,787	-	-	-	238,047
-	-	-	100,000	-	-
-	-	-	76,656	-	-
-	-	-	101,086	-	-
<u>1,000</u>	<u>333,032</u>	<u>500,000</u>	<u>277,742</u>	<u>5,204</u>	<u>246,486</u>
<u>5,710</u>	<u>(278,824)</u>	<u>-</u>	<u>(277,742)</u>	<u>15,256</u>	<u>(210,562)</u>
-	-	-	2,680,000	-	-
-	-	-	18,050	-	-
-	-	-	(2,661,683)	-	-
-	309,876	-	241,375	-	573,271
-	-	-	-	(3,925)	(68,500)
<u>-</u>	<u>309,876</u>	<u>-</u>	<u>277,742</u>	<u>(3,925)</u>	<u>504,771</u>
5,710	31,052	-	-	11,331	294,209
<u>304,201</u>	<u>61,885</u>	<u>-</u>	<u>-</u>	<u>532,372</u>	<u>465,070</u>
<u>\$ 309,911</u>	<u>\$ 92,937</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 543,703</u>	<u>\$ 759,279</u>

Continued

CITY OF MARYSVILLE, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2005**

	Capital Projects Fund	Permanent Fund	
	Local	Cemetery	
	Improvement	Perpetual	
	and Revolving	Care	Total
Revenues:			
Taxes	\$ -	\$ -	\$ 293
Intergovernmental -			
Federal/State	-	-	1,175,115
Local	-	-	36,722
Interest and rent	340	7,311	61,711
Special assessment	-	-	19,497
Other	-	9,750	36,250
Total Revenues	<u>340</u>	<u>17,061</u>	<u>1,329,588</u>
Expenditures:			
Current -			
Public Safety	-	-	486
Public Works	-	-	837,217
Recreation and Cultural	-	82	265,327
Other	-	-	534,503
Capital Outlay	-	-	692,140
Debit Service			
Principal	-	-	100,000
Interest and charges	-	-	76,656
Issuance costs	-	-	101,086
Total Expenditures	<u>-</u>	<u>82</u>	<u>2,607,415</u>
Excess of revenues over (under)			
expenditures	<u>340</u>	<u>16,979</u>	<u>(1,277,827)</u>
Other Financing Sources (Uses):			
Bond Proceeds	-	-	2,680,000
Bond Premium	-	-	18,050
Payment to refunding bond escrow agent	-	-	(2,661,683)
Transfers In	-	-	2,263,756
Transfers Out	<u>(118,582)</u>	<u>-</u>	<u>(528,085)</u>
Total Other Financing Sources (Uses)	<u>(118,582)</u>	<u>-</u>	<u>1,772,038</u>
Excess of revenues and other sources over			
(under) expenditures and other uses	<u>(118,242)</u>	<u>16,979</u>	<u>494,211</u>
Fund Balances at beginning of year	<u>118,242</u>	<u>286,865</u>	<u>2,879,327</u>
Fund Balances at end of year	<u>\$ -</u>	<u>\$ 303,844</u>	<u>\$ 3,373,538</u>

Concluded

CITY OF MARYSVILLE, MICHIGAN

**MAJOR STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
State -			
Act 51	\$ 425,000	\$ 441,410	\$ 16,410
Interest	5,000	11,021	6,021
Other	-	4,576	4,576
Total Revenues	430,000	457,007	27,007
Expenditures:			
Public Works-			
Routine Maintenance	139,696	113,226	26,470
Traffic Services Maintenance	32,476	28,413	4,063
Winter Maintenance	71,783	89,313	(17,530)
Administration/Engineering	23,633	23,834	(201)
Construction	19,000	16,080	2,920
Total Expenditures	286,588	270,866	15,722
Excess of revenues over expenditures	143,412	186,141	42,729
Other Financing Sources (Uses):			
Transfers in	128,849	110,349	(18,500)
Transfers out	(307,078)	(307,078)	-
	(178,229)	(196,729)	(18,500)
Excess of revenues and other sources over (under) expenditures and other uses	(34,817)	(10,588)	24,229
Fund Balance at beginning of year	463,260	463,260	-
Fund Balance at end of year	\$ 428,443	\$ 452,672	\$ 24,229

CITY OF MARYSVILLE, MICHIGAN

**LOCAL STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2005**

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
State -			
Act 51	\$ 170,000	\$ 173,983	\$ 3,983
Maintenance	-	30,067	30,067
Interest	1,000	1,548	548
Other	-	140	140
	<u>171,000</u>	<u>205,738</u>	<u>34,738</u>
Total Revenues			
	<u>171,000</u>	<u>205,738</u>	<u>34,738</u>
Expenditures:			
Public Works			
Routine Maintenance	314,664	383,064	(68,400)
Traffic Services Maintenance	31,458	31,460	(2)
Winter Maintenance	101,576	125,532	(23,956)
Administration/Engineering	28,530	28,732	(202)
Construction	260,000	191,664	68,336
	<u>736,228</u>	<u>760,452</u>	<u>(24,224)</u>
Total expenditures			
	<u>736,228</u>	<u>760,452</u>	<u>(24,224)</u>
Excess of revenues over (under) expenditures	(565,228)	(554,714)	10,514
Other Financing Sources:			
Transfers in	600,274	570,274	(30,000)
	<u>600,274</u>	<u>570,274</u>	<u>(30,000)</u>
Excess of revenues and other sources over (under) expenditures	35,046	15,560	(19,486)
Fund Balance at beginning of year	216,215	237,951	21,736
	<u>216,215</u>	<u>237,951</u>	<u>21,736</u>
Fund Balance at end of year	\$ 251,261	\$ 253,511	\$ 2,250
	<u>\$ 251,261</u>	<u>\$ 253,511</u>	<u>\$ 2,250</u>

CITY OF MARYSVILLE, MICHIGAN

**PUBLIC IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2005**

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Property Taxes	\$ 800	\$ 183	\$(617)
Intergovernmental - State	65,000	-	(65,000)
Interest	7,500	4,739	(2,761)
Special assessment	-	19,497	19,497
Other	-	500	500
Total Revenues	<u>73,300</u>	<u>24,919</u>	<u>(48,381)</u>
Expenditures:			
Other			
Administration	-	11,877	(11,877)
Professional fees	21,424	21,626	(202)
Capital outlay	<u>586,412</u>	<u>178,562</u>	<u>407,850</u>
Total Expenditures	<u>607,836</u>	<u>212,065</u>	<u>395,771</u>
Excess of revenues over (under) expenditures	<u>(534,536)</u>	<u>(187,146)</u>	<u>347,390</u>
Other Financing Sources (Uses):			
Transfers in	458,611	458,611	-
Transfers out	-	(30,000)	(30,000)
	<u>458,611</u>	<u>428,611</u>	<u>(30,000)</u>
Excess of revenues over (under) expenditures and other uses	<u>(75,925)</u>	<u>241,465</u>	<u>317,390</u>
Fund Balance at beginning of year	<u>405,734</u>	<u>405,734</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 329,809</u>	<u>\$ 647,199</u>	<u>\$ 317,390</u>

CITY OF MARYSVILLE, MICHIGAN
INDUSTRIAL DEVELOPMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2005

	Original/ Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Interest	\$ 2,000	\$ 6,710	\$ 4,710
Expenditures:			
Other			
Professional fees	1,000	1,000	-
Excess of revenues over (under) expenditures	1,000	5,710	4,710
Fund Balance at beginning of year	304,201	304,201	-
Fund Balance at end of year	<u>\$ 305,201</u>	<u>\$ 309,911</u>	<u>\$ 4,710</u>

CITY OF MARYSVILLE, MICHIGAN

**RECREATION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2005**

	Original/ Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:			
County park millage	\$ 33,000	\$ 36,722	\$ 3,722
Interest	3,000	3,306	306
Other	8,000	14,180	6,180
Total Revenues	44,000	54,208	10,208
Expenditures:			
Recreation and culture			
Salaries and wages	106,202	105,297	905
Fringe benefits	62,499	55,385	7,114
Materials and supplies	2,010	3,246	(1,236)
Program expense	97,915	86,493	11,422
Travel	1,450	1,030	420
Insurance	5,200	4,187	1,013
Contracted services	500	480	20
Maintenance	11,200	4,220	6,980
Miscellaneous	1,200	4,907	(3,707)
Capital Outlay	65,700	67,787	(2,087)
Total Expenditures	353,876	333,032	20,844
Excess of revenues over (under) expenditures	(309,876)	(278,824)	31,052
Other Financing Sources:			
Transfers in	309,876	309,876	-
Excess of revenues and other sources over (under) expenditures	-	31,052	31,052
Fund Balance at beginning of year	61,885	61,885	-
Fund Balance at end of year	\$ 61,885	\$ 92,937	\$ 31,052

FIDUCIARY FUNDS

CITY OF MARYSVILLE, MICHIGAN

**COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUND
JUNE 30, 2005**

	Employee Retirement Systems			Pension
	Police and Firemen		Other City	Health
	1940 Plan	1965 Plan	Employees	Care
ASSETS:				
Cash and cash equivalents	\$ 2,972	\$ 1,001	\$ 1,001	\$ 920,019
Investments, at fair value				
Marketable CD's	-	-	-	1,006,263
U.S. Government Securities	-	1,135,092	1,661,014	5,288,960
Commercial Paper	-	-	-	-
Convertible Securities	-	1,668,742	939,259	-
Corporate Bonds	-	2,463,833	2,807,504	1,302,001
Foreign Bonds	-	61,646	61,647	-
Stocks	-	9,564,881	12,175,444	-
Total Investments	-	14,894,194	17,644,868	7,597,224
Receivables -				
Accounts receivable	-	-	-	-
Interest and dividends	-	60,513	74,891	-
	-	60,513	74,891	-
Due from other funds	-	10,145	13,058	100,000
Total Assets	2,972	14,965,853	17,733,818	8,617,243
LIABILITIES:				
Accrued liabilities	-	79,636	-	-
Due from other funds		35,937	19,495	-
	\$ -	\$ 115,573	\$ 19,495	\$ -
NET ASSETS:				
Net assets held in trust for pension benefits	\$ 2,972	\$ 14,850,280	\$ 17,714,323	\$ 8,617,243

Employees Vacation/ Sick Pay	Total
<u>\$ 42,020</u>	<u>\$ 967,013</u>
97,808	1,104,071
602,358	8,687,424
-	-
-	2,608,001
-	6,573,338
-	123,293
-	<u>21,740,325</u>
<u>700,166</u>	<u>40,836,452</u>
-	-
-	<u>135,404</u>
-	<u>135,404</u>
-	<u>123,203</u>
<u>742,186</u>	<u>42,062,072</u>
742,186	821,822
-	<u>55,432</u>
<u>\$ 742,186</u>	<u>\$ 877,254</u>
<u>\$ -</u>	<u>\$ 41,184,818</u>

CITY OF MARYSVILLE, MICHIGAN

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2005**

	Employee Retirement Systems			Pension
	Police and Firemen		Other City	Health
	1940 Plan	1965 Plan	Employees	Care
Additions:				
Contributions				
Member contributions	\$ -	\$ 84,657	\$ 113,286	\$ -
Employer contributions	36,700	682,824	755,033	1,018,582
Total Contributions	36,700	767,481	868,319	1,018,582
Investment income				
Interest/Dividends	-	471,916	569,145	615,646
Unrealized gain (loss)	-	(1,641,750)	(1,874,244)	(32,757)
Gain (loss) on sale of investments	-	1,931,928	2,266,716	(205,374)
Net investment income	-	762,094	961,617	377,515
Total Additions	36,700	1,529,575	1,829,936	1,396,097
Deductions:				
Retirement benefit payments	36,732	1,224,251	883,484	-
Health insurance	-	193,604	392,741	-
Vested benefits	-	619	602	-
Professional fees	-	83,646	74,575	-
Miscellaneous	-	3,067	23,400	-
Total Deductions	36,732	1,505,187	1,374,802	-
Net Increase (Decrease)	(32)	24,388	455,134	1,396,097
Net assets held in trust for pension benefits:				
Net Assets at beginning of year	3,004	14,825,892	17,259,189	7,221,146
Net Assets end of year	\$ 2,972	\$ 14,850,280	\$ 17,714,323	\$ 8,617,243

Employees Vacation/ Sick Pay	Total
\$ -	\$ 197,943
-	2,493,139
-	2,691,082
-	1,656,707
-	(3,548,751)
-	3,993,270
-	2,101,226
-	4,792,308
-	2,144,467
-	586,345
-	1,221
-	158,221
-	26,467
-	2,916,721
-	1,875,587
-	39,309,231
\$ -	\$ 41,184,818

CITY OF MARYSVILLE, MICHIGAN

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - SCHOOL AND COUNTY TAX FUND
FOR THE YEAR ENDED JUNE 30, 2005**

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ALL AGENCY FUNDS				
Assets:				
Cash and cash equivalents	\$ 31,689	\$ 50,757	\$ 28,654	\$ 53,792
Taxes Receivable	<u> 433,972</u>	<u> 9,211,649</u>	<u> 8,927,312</u>	<u> 718,309</u>
Total Assets	<u><u>\$ 465,661</u></u>	<u><u>\$ 9,262,406</u></u>	<u><u>\$ 8,955,966</u></u>	<u><u>\$ 772,101</u></u>
Liabilities:				
Due to other governmental units -				
State	63,116	2,413,636	2,377,870	98,882
Local	<u> 402,545</u>	<u> 9,980,624</u>	<u> 9,709,950</u>	<u> 673,219</u>
Total Liabilities	<u><u>\$ 465,661</u></u>	<u><u>\$ 12,394,260</u></u>	<u><u>\$ 12,087,820</u></u>	<u><u>\$ 772,101</u></u>

**CAPITAL ASSETS USED IN THE OPERATION OF
GOVERNMENTAL FUNDS**

CITY OF MARYSVILLE, MICHIGAN

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES IN CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2005**

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
General City:				
Land	\$ 1,008,932	\$ 67,194	\$ -	\$ 1,076,126
Land improvements	1,606,504	60,518	-	1,667,022
Buildings	6,052,486	-	-	6,052,486
Building improvements	482,622	-	-	482,622
Machinery & equipment	2,235,685	127,189	44,592	2,318,282
Vehicles	1,323,831	27,960	-	1,351,791
Bikepaths	360,161	-	-	360,161
Sidewalks	2,037,397	86,947	-	2,124,344
Streets	33,084,675	157,347	-	33,242,022
	<u>48,192,293</u>	<u>527,155</u>	<u>44,592</u>	<u>48,674,856</u>
Less - accumulated depreciation	<u>(26,684,598)</u>	<u>(2,145,708)</u>	<u>(44,592)</u>	<u>(28,785,714)</u>
	21,507,695	(1,618,553)	-	19,889,142
Construction in progress	<u>497,194</u>	<u>200,282</u>	<u>-</u>	<u>697,476</u>
Net Total Investment in General Fixed Assets	<u><u>\$ 22,004,889</u></u>	<u><u>\$(1,418,271)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 20,586,618</u></u>

COMPONENT UNIT - LOCAL DEVELOPMENT FINANCE AUTHORITY

CITY OF MARYSVILLE, MICHIGAN

**BALANCE SHEET/STATEMENT OF NET ASSETS
LOCAL DEVELOPMENT FINANCE AUTHORITY
JUNE 30, 2005**

	<u>Governmental Activities</u>	<u>GASB 34 Adjustments</u>	<u>Statement of Net Assets</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Due to primary government	\$ 23,195	\$ -	\$ 23,195
Non-current liabilities			
Due within one year	-	27,210	27,210
Due in more than one year	-	337,095	337,095
	<hr/>	<hr/>	<hr/>
Total Liabilities	23,195	364,305	387,500
Fund Balance (Deficit):			
Unreserved	(23,195)	23,195	-
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balance	<u>\$ -</u>		
Net Assets:			
Unrestricted		(387,500)	(387,500)
		<hr/>	<hr/>
Total Net Assets		<u>\$ (387,500)</u>	<u>\$ (387,500)</u>

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS - LOCAL DEVELOPMENT FINANCE AUTHORITY
JUNE 30, 2005**

Fund Balance (Deficit) - Local Development Finance Authority	\$ (23,195)
Long - term liabilities, including installments payable, are not due and payable in the current period and therefore are not reported in the funds.	
Notes payable	(364,305)
Net Asset (Deficit) of Downtown Development Authority activities	<u>\$ (387,500)</u>

CITY OF MARYSVILLE, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN
FUND BALANCE/STATEMENT OF ACTIVITIES
LOCAL DEVELOPMENT FINANCE AUTHORITY
FOR THE YEARS ENDED JUNE 30, 2005**

	<u>Governmental Activities</u>	<u>GASB 34 Adjustments</u>	<u>Statement of Net Assets</u>
Expenditures/Expenses:			
Current -			
Other	\$ 7,886	\$ 375,000	\$ 382,886
Capital outlay	375,000	(375,000)	-
Debt Service-			
Principal	7,207	(7,207)	-
Interest and fiscal charges	4,614	-	4,614
	<u>394,707</u>	<u>(7,207)</u>	<u>387,500</u>
Other Financing Sources:			
Loan proceeds	<u>371,512</u>	<u>(371,512)</u>	<u>-</u>
Other financial sources under expenditures	(23,195)	(364,305)	(387,500)
Fund Balance/Net Asset at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance/Net Asset (Deficit) at end of year	<u><u>\$ (23,195)</u></u>	<u><u>\$ (364,305)</u></u>	<u><u>\$ (387,500)</u></u>

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES/EXPENSES , AND CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
LOCAL DEVELOPMENT FINANCE AUTHORITY
JUNE 30, 2005**

Net change in fund balances - Local Development Finance Authority \$ (23,195)

The issuance of long-term debt (e.g. bonds and notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources to governmental funds. Neither transaction, however, has any effect on net assets.

Loan Proceeds	(371,512)
Principal payments on long term liabilities	<u>7,207</u>
Change in net assets of Local Development Finance Authority activities	<u><u>\$ (387,500)</u></u>

CITY OF MARYSVILLE, MICHIGAN

**SUPPLEMENTARY INFORMATION TO
BASIC FINANCIAL STATEMENTS**

(FEDERAL AWARDS)

FOR THE YEAR ENDED JUNE 30, 2005

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



CITY OF MARYSVILLE, MICHIGAN

TABLE OF CONTENTS

	Page Number
Independent Auditor's Report on –	
Supplementary Financial Information	1
Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2
Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	4
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION**

To the Honorable Mayor and
Members of the City Council
City of Marysville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marysville, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements. Those financial statements are the responsibility of the City of Marysville's management. Our responsibility is to express opinions on those financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Marysville, Michigan's basic financial statements. The Schedule of Federal Expenditures of Federal Awards presented on Page 6 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the basic financial statements. The information in this schedule has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

September 1, 2004



**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council
City of Marysville, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marysville, Michigan, as of and for the year ended June 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Marysville, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Marysville, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Marysville in a separate letter dated September 2, 2005.

This report is intended solely for the information and use of management and the City Council of the City of Marysville, Michigan, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Stewart, Beauvois & Whipple".

Certified Public Accountants

September 2, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and
Members of the City Council
City of Marysville, Michigan

Compliance

We have audited the compliance of the City of Marysville, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The City of Marysville, Michigan's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of the City of Marysville, Michigan's management. Our responsibility is to express an opinion on the City of Marysville, Michigan's compliance based on our audit.

The City of Marysville, Michigan's financial statements include the operations of the City of Marysville Housing Commission, a discretely presented component unit of the City, which received \$217,285 in federal awards, which is not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2005. Our audit, as described below, did not include the operations of the City of Marysville Housing Commission. It had a separate audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Marysville, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Marysville, Michigan's compliance with those requirements.

In our opinion, the City of Marysville, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the City of Marysville, Michigan, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Marysville, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management and City Council of the City of Marysville, Michigan, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

September 1, 2005

CITY OF MARYSVILLE, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
<u>Passed Through Michigan Jobs Commission:</u>			
Community Development Block Grant/State's Program			
Revolving Loan Fund-	14.228		
Small Cities Program		MSC 204003-EDIL	\$ 500,000
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
<u>Passed Through St. Clair County :</u>			
State and Community Highway Safety -	20.600	N/A	
Drive Michigan Safely Task Force			21,936
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY:</u>			
<u>Passed Through the Michigan Department of Environmental Quality:</u>			
Capitalization Grants for Drinking Water			
State Revolving Funds	66.468		
State Revolving Fund Loan		N/A	215,266
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
<u>Passed Through The Michigan Department of State Police:</u>			
State Domestic Preparedness Grant -	97.004		
Part II Critical Infrastructure		N/A	39,362
<u>Direct</u>			
Assistance to Firefighters	97.044	N/A	2,871
Total U.S. Department of Homeland Security			42,233
Total Federal Awards			\$ 779,435

CITY OF MARYSVILLE, MICHIGAN

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Marysville as presented in its governmental and proprietary funds in the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. (See Note 3)

NOTE 2 - SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE:

Federal reimbursement for the Drinking Water State Revolving Fund program (CFDA #66.468) is a percentage of the total reimbursements. The federal percentage has changed based on specific periods of time. The federal portion which is reported on the Schedule of Expenditures of Federal Awards for the period reimbursed is 28.04%.

NOTE 3 - RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

The following schedule reconciles the intergovernmental revenues reported in the June 30, 2005 basic financial statements for the primary government to the expenditures of the City of Marysville administered federal programs reported on the Schedule of Expenditures of Federal Awards.

	<u>Governmental Funds</u>		<u>Proprietary</u>	
	<u>Major</u>	<u>Non-Major</u>	<u>Funds</u>	<u>Total</u>
Balance per Financial Statements –				
Governmental Funds –				
Intergovernmental revenue	\$ 1,131,410	\$ 1,175,115	\$ -	\$ 2,306,525
Add: Reported as Bond proceeds				
(1,028,996 x 20.92%)	-	-	215,266	215,266
Less:				
State and Local intergovernmental revenue	(1,067,241)	(675,115)	-	(1,742,356)
Federal Award Expenditures				
Revenue per Basic Financial				
Statements	<u>\$ 64,169</u>	<u>\$ 500,000</u>	<u>\$ 215,266</u>	<u>\$ 779,435</u>

CITY OF MARYSVILLE, MICHIGAN

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

Section I – Summary Of Auditor’s Results:

Financial Statements

Type of auditor’s report issued: Unqualified

Internal controls over financial reporting:
Material weakness(es) identified? _____ yes x no
Reportable condition(s) identified not
considered to be material weaknesses? _____ yes x none reported

Noncompliance material to financial
statements noted? _____ yes x no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? _____ yes x no
Reportable condition(s) identified not
considered to be material weaknesses? _____ yes x none reported

Type of auditor’s report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required to
be reported in accordance with Circular A – 133,
Section 510(a)? _____ yes x no

Identification of Major Program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
CFDA #14.228	Community Development Block Grant/ State’s Program

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ yes x no

Section II - Financial Statement Findings:

There were no Financial Statement Findings.

Section III - Federal Award Findings and Questioned Costs:

There were no Federal Award Findings and Questioned Costs.

Section IV – Prior Years Findings and Questioned Costs:

There were no Prior Years Findings or Questioned Costs.

MANAGEMENT LETTER

To the Honorable Mayor and
Members of the City Council
City of Marysville, Michigan

As you know, we have recently completed our audit of the financial statements of the City of Marysville, Michigan as of and for the year ended June 30, 2005. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control, operational efficiency and/or compliance with Federal or State requirements. These suggestions are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in the **Report on Internal Control Over Financial Reporting Based And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards**, dated September 2, 2005, the conditions described below are not considered reportable conditions or material weaknesses.

Information should be available to comply with GASB No. 40 – Deposit and Investment Risk Disclosures.

For the year ended June 30, 2005 the City is required to present additional information regarding the investments of the City including the types of investments held, cost, market value, average maturity, etc. The monthly financial reports of MBS does not provide some of this information, therefore it could not be included in the note for 2005.

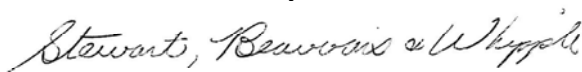
We recommend that the City work with the company and develop a report that will readily provided the information required by GASB No. 40 on a monthly basis.

Budgets should be adopted for all Special Revenue Funds.

For the year ended June 30, 2005 there were two Special Revenue Funds that the City did not adopt budgets for, the Drug Law Enforcement and Industrial Aid Fund. Public Act 621 of 1978 requires that budgets be adopted for all Special Revenue Funds. In the future we recommend that budgets be adopted for all Special Revenue Funds.

This report is intended solely for the information of the City Council of the City of Marysville, management, others within the organization and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



September 2, 2005